

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	AUDIT COMMITTEE
Report of:	Assistant Director, Audit & Risk Management
Date of Meeting:	21st November 2017
Subject:	Birmingham Audit - Half Year Update Report 2017/18
Wards Affected:	All

1. PURPOSE OF REPORT

- 1.1 The attached report provides Members with information on outputs and performance measures in relation to the provision of the internal audit service during the first half of 2017/18.

2. RECOMMENDATIONS

- 2.1 Members are asked to note the content of the report.

3. LEGAL AND RESOURCE IMPLICATIONS

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

4. RISK MANAGEMENT & EQUALITY ANALYSIS ISSUES

Risk Management is an important part of the internal control framework and an assessment of risk is a key factor in the determination of the internal audit plan.

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

5. COMPLIANCE ISSUES

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

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Birmingham Audit Half Year Report 2017/18

21st November 2017

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1. Background / Annual Opinion

- 1.1 The 2017/18 audit plan was prepared in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2015. It also had due regard for the protocol with the External Auditors and took account of responsibilities under section 151 of the Local Government Act 1972.
- 1.2 The Council continues to go through significant change. The drivers for change being both organisational and financial. During a period of change it is important that any increased business risks are identified and managed in an effective manner. The audit plan is prepared using a risk based methodology and is continually updated throughout the year, this helps to ensure that we concentrate on the most significant areas.
- 1.3 The 2017/18 audit plan was approved by the Audit Committee at the June 2017 meeting. This report provides a summary of the progress made in delivering the agreed plan.
- 1.4 The plan is prepared and delivered to enable me to provide an independent opinion on the adequacy and effectiveness of the systems of internal control in place (comprising risk management, corporate governance and financial control). In addition to audit reviews, the model used to formulate the end of year opinion, places reliance on assurance provided from other parties and processes. The opinion for 2017/18 will be based on the following sources of assurance:
 - Internal Audit work (planned, follow-up and fraud work).
 - Assurance from the work of the External Auditor.
 - The Annual Governance Statement (AGS).
 - The Risk Management Process.

The audit work undertaken to date and the economy, efficiency and effectiveness issues raised by the Council's External Auditor within their Audit Findings Report feed into the opinion I have to provide at the end of the financial year.

2. Added Value Services

2.1 Although my primary responsibility is to give an annual assurance opinion, I am also aware that for the Internal Audit service to be valued by the organisation it needs to do much more than that. There needs to be a firm focus on assisting the organisation to meet its aims and objectives, and on working in an innovative and collaborative way with managers; to help identify new ways of working that will bring about service improvements and deliver efficiencies. Examples of how we have done this during the first half of 2017/18 include:

- Further extension and use of the data warehouse to detect and prevent crime, fraud and error including the provision of intelligence to a number of partners and agencies, eg: the Illegal Money Lending Team; and two new police teams (Camera Enforcement Unit and Counter Terrorism Unit.)
- A review of mortality matches provided through NFI prompted us to review Council Tax records where an exemption was in place due to the death of the occupier. This identified a significant number of properties where the exemption appeared to be in place, and no Council Tax collected, for longer than would appear necessary.
- Similar exercises are being undertaken on Council Tax Class E (people in care homes,) and Council Tax Class N (student) exemptions.

3. Performance

3.1 Outputs

During the first half of 2017/18 we issued 151 final reports.

Reports by Type	2016/17 (Apr – March 17)	2017/18 (Apr – Sept 17)
Internal Audit Reviews	122	66
Follow up Reviews	31	23
School Visits	96	48
Investigations	24	14
Total	273	151

In accordance with the procedure for sharing Internal Audit reports, all Audit Committee Members are provided with a list of final audit reports issued each month, together with details of risk and assurance ratings. Members are able to request copies of reports and receive further information. A full list of the reports issued during the first half year, including details of how the reviews link to the Council's priorities, core objective of good governance, the Corporate Risk Register and financial assurance is detailed in Appendix A.

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

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

Of the 137 reports (66 Internal Audit, 48 School Visits and 23 Follow up Reviews) issued, 2 were given a red level 3 risk rating, 30 had an amber level 2 rating, 103 had a green level 1 rating, and 2 (relating to external organisations) had no risk rating.

A summary of the significant findings from our work is detailed in Appendix B.

3.2 Plan Completion

As at 30th September 2017 we had completed 40% of planned jobs against the September target of 40%, and annual target of 95%.

3.3 Corporate Fraud Team

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.

The table below summarises the reactive investigations activity of the Team (excluding Application Fraud) for the year to date:

	2016/17 (Apr – March)	2017/18 (Apr - Sept)
Number of outstanding investigations at the beginning of the year	14	10
Number of fraud referrals received during the year to date	111	54
Number of cases concluded during the year to date	115	31
Number of investigations outstanding	10	33

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.

Within the CFT there is a sub-team specifically established to tackle ‘application based’ fraud, primarily related to Social Housing and Council Tax. Their results are summarised in the table below:

	2016/17 (Apr – March 17)	2017/18 (Apr – Sept 17)
Properties Recovered	45	56
Applications Cancelled	194	89
Reduced Points (Applications)	37	16
Housing Benefit Overpayment	£589,110	£445,492
Council Tax Change	£324,974	£759,372

(Note: figures include the results from our proactive work on CT exemptions, see 2.1 above)

4. Resources

- 4.1 The Council continues to face a number of financial challenges and has identified the need to make significant financial savings. Birmingham Audit is required to contribute to these savings. We are continually reviewing our working practices, methodologies and structure to ensure they remain appropriate and support the organisation. Any reduction in resources and planned audit coverage will be carefully considered to ensure that I can continue to provide an effective service and an annual audit opinion.

5. Completion of the Internal Audit Plan 2017/18

5.1 The 2017/18 plan contains 5,113 days . The table below details completion as at 30th September 2017.

	2017/18 Planned Days	2017/18	Actual Days as at (Apr – Sept 17)	% (Apr – Sept 17)
Number of Audit Days in the annual plan	5113	100%	2329	
Main financial systems	905	18%	422	18%
Business controls assurance	1735	34%	780	34%
Investigations	830	16%	382	16%
Schools (Non Visits)	155	3%	70	3%
Schools (Visits)	945	19%	426	18%
Follow up work	200	4%	40	2%
Ad-hoc work	178	3%	118	5%
Planning & reporting	125	2%	87	4%
City initiatives	40	1%	4	-

Reports Issued During the First Half of 2017/18
Audit Reviews (64 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 was presented to Audit Committee on 25th July 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
Adequacy & Progress of the Maximising Independence of Adults Prog'	High	Level 3				✓			
Information Assurance Framework	High	Level 3					✓		
RBIS Batch Processing and Housing Benefit Subsidy Claim	Medium	Level 3			✓				✓
Recording and Banking of School Income	Medium	Level 3	✓						✓
Schools Purchase Cards	Medium	Level 3	✓						✓
CareFirst	Medium	Level 3	✓			✓	✓		
Individual Budgets Summary Report	Medium	Level 3							✓
Childrens Direct Payments Summary Report	Medium	Level 3	✓						✓
Financial Control Review	Medium	Level 3						✓	✓

Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
Housing Options Service	Medium	Level 3			✓				
IT Procurement	Medium	Level 3						✓	✓
Egress - Secure Email	Medium	Level 3					✓		
Museums - Management Arrangements	Medium	Level 3					✓		✓
Data Sharing	Medium	Level 3					✓		
Direct Payments - Workflow	Medium	Level 3				✓			✓
Contract Management - Provision of Transport Services	Medium	Level 3					✓		
Due Diligence	Medium	Level 3					✓		
Adults Direct Payments Summary Report	Medium	Level 2				✓			✓
Benefits Service - Revenues notifications impacting on Benefit Claims	Medium	Level 2			✓				✓
Corporate Parenting	Medium	Level 2	✓						
Delivery of Mandatory Support to Clinical Commissioning Groups	Medium	Level 2					✓		
People Commissioning Directorate Performance	Medium	Level 2			✓		✓		
N3 Network	Medium	Level 2				✓	✓		
IT Projects People - ACAP Portals	Low	Level 3				✓	✓		✓
Greater Birmingham & West Midlands Brussels Office	Low	Level 3		✓			✓		✓
Risk Management - Corporate Strategy and Performance	Low	Level 3					✓		
CareFirst IT Review	Low	Level 3	✓		✓		✓		
Accounts Receivable - Creation of Business Partners / Customers	Low	Level 2							✓
Corporate Payroll - SAP Transaction testing	Low	Level 2							✓
Traffic Management - Policy and Delivery	Low	Level 2						✓	
Northgate Housing IT Review	Low	Level 2			✓				
Nursery School Funding	Low	Level 2	✓						✓

Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
Allocations	Low	Level 2			✓				
Accounts Payable End of Year report 2016/17	Low	Level 2							✓
Accounts Receivable End of Year report 2016/17	Low	Level 2							✓
Vehicle Assets	Low	Level 2						✓	
Non-HRA Assets	Low	Level 2						✓	
Corporate Payroll End of Year 2016/17	Low	Level 2							✓
Government Grants	Low	Level 2		✓					✓
Customer Services	Low	Level 2			✓				
Responsive Repairs and Maintenance Services Gas Servicing and Capital Improvement Contract Management	Low	Level 2			✓				
Birmingham Wildlife Conservation Park	Low	Level 2					✓		✓
Illegal Money Lending Team	Low	Level 2					✓		
IT Incidents / Problems	Low	Level 2					✓		
Nursery School Funding Audit	Low	Level 2	✓						✓
Corporate review of personal use of vehicles	Low	Level 2					✓		✓
Council Tax - Suppressions	Low	Level 2							✓
IT Applications - Change Control	Low	Level 2					✓		
Corporate Voice Solution	Low	Level 2	✓				✓		
N3 Network - Level 2 Accreditation Compliance Checks	Low	Level 2					✓		
N3 Network 2018	Low	Level 2					✓		
Tooling Loan Funding Programme	Low	Level 2		✓					✓
Messaging Services	Low	Level 2					✓		
Accounts Payable - Vendor Master Data	Low	Level 1							✓
Risk Management - Assessment and Support Planning	Low	Level 1				✓	✓		

Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
EDSI - Management of Payments	Low	Level 1							✓
Corporate Payroll - Payroll Exception reporting	Low	Level 1							✓
Urgent Payments - Faster BACS	Low	Level 1							✓
Northgate Automatic Solution	Low	Level 1							✓
Accounts Payable (AP) - CP1 Payments	Low	Level 1							✓
Corporate Payroll - Allocation of pensions	Low	Level 1							✓
Accounts Payable - Management & Monitoring arrangements of the Procure to Pay Service	Low	Level 1							✓
Accounts Receivable - Management and Monitoring Arrangements	Low	Level 1							✓
Rent Collection and Charges Credits Balances	Low	Level 1							✓

Follow Up Reports (23 Reports):

Title	Risk Rating Council
Deprivation of Liberty Safeguards 2nd Follow Up	Medium
Fleet Services - Review of Management Arrangements Follow Up	Medium
Engagement of Individuals - Application of HMRC Rules Follow Up	Medium
Operating System Security Follow Up	Medium
DFG VAT Coding Follow Up	Medium
Local Growth Fund Management Arrangements Follow Up	Medium
TMO Support Team Follow Up	Low
Schools City Wide Follow Up	Low
Enforcement - Litter and Fly Tipping - 2 nd Follow Up	Low

Title	Risk Rating Council
BACS 2017 Follow Up	Low
Corporate review of the use of Petty Cash Follow Up	Low
Housing Visiting Programme Mobile Solution Follow Up	Low
Database Security Follow Up	Low
IT Project Governance Follow Up	Low
Mobile Phones Follow Up	Low
Petty Cash Follow Up – Place	Low
Petty Cash Follow Up – People	Low
Provision of Adult Substance and Misuse Treatment and Recovery Services - Service Delivery Follow Up	Low
IT System Security Follow Up	Low
PCI DSS Follow Up	Low
Information Governance - DfE Returns Follow Up	Low
Our Lady of Lourdes School Follow Up	Low
Adult Education - Students from Abroad Follow Up	Low

Investigation Reports (14 Reports)

School Visits (48 Reports)

Summary of Significant Findings

Red High Risk Reports

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

Adequacy and Progress of Maximising Independence of Adults (MIA) Programme - The MIA Programme has been established to deliver the Council's future vision of Adult Social Care and to support the delivery of directorate savings targets. We identified concerns that the programme may not achieve its identified outcomes / expected targets, in particular delivering the standard of service required and achieving targeted savings.

Greater strategic capacity has been brought into the programme to help with driving it forward on a successful basis.

Information Assurance Framework - Internal Audit work undertaken during 2016/17 and the first quarter of 2017/18, identified information governance concerns. Our assessment against the Information Assurance Maturity Model, issued by UK government's National Technical Authority for Information Assurance, identified that whilst pockets of good practice exist, information governance processes are generally fragmented. Information governance processes are to be strengthened in line with organisational requirements as part of the ongoing programme of work to streamline the way IT and Digital Services are provided, and implementation of the new IT and Digital governance framework.

School Visits

During the first half of 2017/18 we have continued to work with both directorate and school colleagues to ensure we undertake a robust and added value audit of key elements of school strategic and operational service delivery. Our reviews have identified a number of areas for development:

- **Financial Governance** - While these findings do not stop schools functioning effectively, there is a lack of clarity regarding financial responsibilities. Improvements are required in the financial reporting to governors to allow sufficient scrutiny and challenge. The completion of pecuniary interest forms remains an ongoing issue in a number of schools, together with improving the recording of gifts and hospitality. The majority of schools are now completing their Schools Financial Value Standard on an annual basis, but not always submitting it by the deadline or recording its approval.

Notably we have seen a reduction in the number of schools completing a strategic risk register, a statement of internal control and ensuring that governor pecuniary interests are correct on the schools web site.

- 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, and the need for governors and Senior School Leadership to establish and agree plans to address it.
- Purchasing - improved compliance is needed regarding key controls for ordering and receipting of goods. Improvements are also required in respect of establishing appropriate divisions of duty.
- Delegated Powers - a need for greater compliance in the reporting of quotes to governors. Improvements are also required in the monitoring of cumulative expenditure to ensure value for money is obtained.
- Attendance - overall attendance remains well managed and effective arrangements are in place. But 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 their children and take that responsibility seriously. However, there remains the need for improvement in respect of monitoring IT and internet use, and undertaking due diligence prior to lettings; to ensure users meet both safeguarding and the 'No Platform for Extremism Policy' requirements. Schools are rolling out Prevent training but need to improve the mechanisms for recording that the training has been undertaken.