Management Response to Audit Findings Report Recommendations **Appendix 1**

Rec No.	Issue and Recommendation	Priority	Management Response	Implementation Date & Responsibility
	Accounts			
1	**Control weakness – payroll leavers** As part of our payroll testing we identified one individual who resigned from the Council in June 2017. However, their resignation form was not authorised until October 2017. Salary overpayments were identified in February 2018 and payments to the individual were suspended. This has been recognised as a debtor. Although we are satisfied that this error was identified by the Council, there is a risk that salary overpayments could occur if resignation documents are not authorised and actioned on a timely basis.		The overpayment related to a failure by management to comply with Council processes for the timely recording when a person leaves the Council. A review by internal audit has identified a further 18 cases of a similar nature. Whilst this is a very small number of incidents given a monthly payroll of circa 14,000 payments further investigations have been undertaken. The Council seeks to recover any overpayments. Many of the issues identified are due to management not taking proactive action in line with the processes available on the Intranet/People Solution, examples include: o Late notification or not completing the termination form when employees have left employment of BCC, whether that be via online or offline process o Late notification or not completing changes in hours via offline or online process for temporary/permanent changes o Sickness absence end dates not updated which results in employees being overpaid as they should be in half/nil pay o Late or no notification of maternity/paternity/adoption/unpaid/parental leave causing overpayments	

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	Recommendation We recommend that management consider the adequacy of controls in place to ensure authorisation of leaver documents does not lead to payments being made to individuals once they have ceased employment.		To improve managerial compliance HR services will undertake the following: a) half yearly communication reminders to managers to remind them of their obligations where there are pay related requirements b) Monthly audit check of 'non-completed' actions which are items awaiting approval in a manager's worklist. c) Where there are repeat offenders the relevant Director will be notified and formal disciplinary action may be taken. Targeted training to be offered to those repeat offenders. d) Ensure People Solutions training in respect of 'Self-service' is completed as part of the induction. e) HR Services proactively chase managers where we have cause to believe an overpayment may arise	**Implementation Date:** a) October 2018 and then every 6 months b) Monthly c) Quarterly identification and reporting d) December 2018 e) Ongoing **Responsible Officer:** Assistant Director Human Resources

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2	**Control issue – heritage asset valuations** From our work performed on heritage assets and through further discussions with management we consider that the value of Heritage assets recognised on the balance sheet, whilst the accounting treatment is compliant with the Code based on insurance valuations, may not be a true reflection of the value of such assets. **Recommendation** We recommend that management consider the appropriateness of these insurance valuations.		The Code requires that Heritage assets should normally be carried at valuation. However, where it is not practical to obtain a valuation at a cost that is commensurate with the benefits to users of the financial statements, Heritage Assets may be carried at cost where that information is available. Where information on cost or value is not available then the Code does not require the asset to be recognised on the balance sheet. Valuations may be made by any method that is appropriate and relevant and need not be carried out by external valuers. For the heritage collections held within the Museums, the Council has decided to use the insurance valuation of maximum exposure to loss, which equates to £150m. That value is unlikely to represent the full value of the collection, but with the extensive collection within the service a full valuation is likely to take a significant time to complete, give a significant range of possible values for the collection and be at such a cost as to make it uneconomical to commission and of limited benefit to the readership of the accounts. The appropriateness of valuations will be kept under review.	**Implementation Date:** March 2019 **Responsible Officer:** Finance Manager, Financial Accounts

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3	**SAP – User access** We identified a higher than expected number of system accounts and service accounts with SAP_ALL access. SAP_ALL access provides access to all IT functions within the ledger system. We also noted one member of staff who was given this access in error. We can confirm no manual journals have been processed by this user in 2017/18. **Recommendation** We recommend that management considers which users need SAP_ALL access and removes access to this function where is it not required.		SAP Business Support Centre (BSC) response: The process to grant SAP_ALL to users has been agreed with Internal Audit and has been checked by them periodically. Access to SAP_ALL is only granted following application from Capita ICTDS to nominated representatives of SAP BSC and is limited to a maximum of 5 days. SAP BSC carries out daily checks to monitor who has access to SAP_ALL and any errant users are dealt with immediately with access being revoked. Capita ICTDS have explained this below. Capita ICTDS response: The system and service user IDs are required for system and communication activities and are set up as per the requirements of the software vendor. The SAP landscape is heavily integrated and any change to these IDs is a very high risk activity. We review these IDs and any that are out of use are/will be removed including those generic users that do not have SAP_ALL. At the time of the Grant Thornton audit it was explained that the specific id queried was not set up in error but was assigned SAP_ALL on 04/03/2018 during the exceptional circumstance of a project go live. An error was made by one of our security consultants who did not remove it. There is an existing BSC process to monitor SAP_ALL and they would have identified and asked for this to be removed.	**Implementation Date:** Immediate and ongoing **Responsible Officer:** Finance Manager, SAP BSC

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4	**Multiple accounts assigned to a single user** We identified a high number of users with multiple accounts within SAP. Whilst some of these are required for Firefighter ID purposes, it appears that some are unnecessary. **Recommendation** We recommend that management considers which users need multiple accounts within SAP and removes access to those where this function where is it not required.		The process to grant Firefighter ID's to users has been agreed with Birmingham Audit and is checked by them periodically. In addition SAP BSC carries out a monthly check to ensure that all Firefighters are valid. Where access is no longer required it is revoked.	**Implementation Date:** Immediate and ongoing **Responsible Officer:** Finance Manager, SAP BSC
5	**Under-accrual of waste invoices** Management made us aware of a number of waste invoices relating to services provided 2017 which had not been correctly recorded in the financial statement. Whilst the		The invoices referred to all relate to services provided during the refuse collection dispute during 2017/18, but that were not recognised in the ledger until 2018/19, and for which no accrual was made. For clarity, it should be noted that whilst costs were not properly recorded in the ledger for 2017/18 either	**Implementation Date:** To be implemented immediately and ongoing

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	values involved are immaterial to our audit we have identified two weaknesses in the control environment. Firstly, one purchase order (PO) created in the system became 'stuck' and could not be authorised. This meant that invoices received could not be matched to the PO. Secondly, a number of payments were processed in relation to invoices which had not yet been recorded in the system. **Recommendation** We recommend that the Council considers its controls in place to ensure other invoices are not paid before they are recognised within the ledger system.		through purchase orders or otherwise, payments were not issued to the service provider until such a time as the point at which the invoices were recorded on the system in 2018/19. The Council's preferred approach is for invoices to be paid through matching with appropriately raised and authorised purchase orders, although it is possible for invoices to be processed outside of this route subject to the appropriate approvals (which still results in invoices being properly recorded on the system). The invoices identified in this instance were processed through this "non-purchase order" route, but were still recorded on the ledger when identified as set out above. The costs were not however accrued into the year to which the costs related. The requirements for Service Directorates to comply with accounts payable policies and procedures will be reinforced through management team meetings, and reviews of significant unmatched purchase orders reviewed as a part of the year-end closedown of accounts process to identify required accruals.	**Responsible Officer:** Business Partner – Place Directorate

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6	**Control weakness - HRA revaluation** From completing our testing on HRA revaluation, we noted a £97.1m error within council dwellings which resulted an understatement of net book value. This occurred due to a formula error and has now been corrected. **Recommendation** We recommend that a reconciliation control is put in place to ensure the prevention of similar errors in the future.		Agreed. Given the substantial overall value of HRA dwellings, a small percentage change in market values can have a material effect on the net book value to be included in the accounts. In order to ensure that the valuation in the accounts is materially correct, it is therefore necessary for the valuation to be undertaken as close to the year-end as possible. Notwithstanding this, the timeline for the provision of HRA asset valuations will be reviewed with a view to allowing more time for effective reconciliation and consistency checks to be applied to the calculation of revaluation adjustments, whilst still ensuring that the valuations are materially correct as at the year-end date.	**Implementation Date:** March 2019 **Responsible Officer:** Business Partner - Place Directorate/ Valuer
7	**Control weakness – Business Rates Appeals** Classification of additional provisions made in year and amounts used in year are incorrect. However, we are satisfied that the year end provision value is correct.		The vast majority of the provision calculation was deemed to be classified correctly as brought forward amounts used. There was only a small, less significant, net value that was identified as potentially being a combination of additional provisions made and used in year and therefore classified incorrectly. It was concluded, therefore, that further analysis was not	**Implementation Date:** 31 March 2019

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	Recommendation We recommended that the Council accurately calculate out the amount of business rate appeals used in year which will result in an accurate figure for additional provisions to be made in year.		warranted in this instance. The volume of individual transactions involved with the provision calculation would require an extensive piece of analysis in order to correctly classify each item. However the figures will be analysed further in future to determine if the potential figure that could be re-classified as additional provision used in year is significant, which would then be considered as part of the final accounts process if necessary.	**Responsible Officer:** Senior Business Analyst – Collection Fund

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	Value for Money			
1	**Budget Delivery and Reserves Management, as well as savings proposals** The key risk is that the proposed savings schemes (including the implementation of savings proposals) will not deliver the required recurrent savings, or will take longer to implement than planned. **Recommendation** We recommend that the Council deliver the elements of the statutory recommendation that relate to finance and transparency and governance (see page 5).		The Council has taken a number of steps to ensure that financial and performance monitoring information provided is timely to enable decisions to be made at the earliest opportunity. These have included: • Improvements in the quality and timing of the monthly budget monitoring reports to allow for early reporting and discussions with budget holders enabling corrective action to be taken more quickly. This includes the future years' dimension as well as the in-year position. • The introduction of a star chamber for relevant Service Directors and Cabinet Members to meet the Cabinet Member for Finance and Resources and the Chief Finance Officer to enable an understanding of the financial position and any appropriate corrective action to be taken • A tightening on the use of reserves through Cabinet approval to ensure that recovery plans are considered before the use of reserves, which is a last resort to meet budget pressures. Reserves will be kept under review to ensure their adequacy.	**Implementation Date:** Immediate and ongoing **Responsible Officer:** Corporate Director, Finance & Governance

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			• More formal scrutiny arrangements for the Council's finances have been put in place in addition to the creation of a Capital Board chaired by the Leader • More robust arrangements are being introduced for the programme and project management of the delivery of savings initiatives. The process for the development of future years' budgets has been started considerably earlier than in previous years.	
2	**The Panel** The key risk is that the Panel will conclude that the Council is not making sufficient progress in implementing the changes needed. **Recommendation** We recommend that the Council implement the actions identified in its Improvement Stocktake Report and demonstrate measurable		The stock-take report published in June 2018 represented the Council's self-assessment of progress against the Kerslake recommendations and subsequent Birmingham Independent Improvement Panel (BIIP) concerns. The Council has also developed a Corporate Governance Improvement Plan. From July 2018, the Council has provided regular reports on progress against its self-assessment and improvement plans through monthly meetings with MHCLG and the BIIP. This has involved the sharing of monthly finance summaries, performance management and Corporate Governance Plan documents.	**Implementation Date:** Immediate and ongoing **Responsible Officer:** Chief Executive

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	outcomes to the Panel		Collaboration workshops have been put in place between the Council and the BIIP that will cover development issues such as performance management, homelessness and skills.	
3	**Services for Vulnerable Children** The key risk is that the service does not show demonstrable improvement and continues to be subject to external intervention. Until such time as Ofsted has confirmed that adequate arrangements are in place this remains a significant risk to the Council's arrangements. **Recommendation** We recommend that the Council continue to demonstrate measurable improvements in services for vulnerable children through the Children's Trust		Birmingham Children's Trust (the Trust) was set up to provide Children's Social Care services. By being an independent children's trust there can be a more focused and flexible approach to improving services for vulnerable children. The Council manages the contract with the Trust with an agreed set of performance measures. Monthly meetings of the Operational Commissioning Group include reports on 15 key indicators which collectively form one of the measures in the 2018-22 Council Plan. As of the end of July, all monthly indicators were on track or within the agreed level of tolerance Preparations are underway for an expected local authority children's services inspection in the next few months which will assess on going improvement.	**Implementation Date:** Through ongoing monthly reviews and by December 2018 **Responsible Officers:** For the Council: Corporate Director of Children & Young People Assistant Director for Commissioning For Birmingham Children's Trust: Chief Executive

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4	**Management of Schools** The key risk is that the governance issues identified at schools will not be effectively addressed. **Recommendation** We recommend that the Council increase the pace of improvement in schools governance arrangements to ensure that it can demonstrate to Ofsted that it has addressed the issues that it raised.		1. A new school improvement contract has been agreed with Birmingham Education Partnership to run from 1 Sept 2018 for two years and a set of priorities and performance framework is being agreed. Provisional results for children's performance at Key Stage 2 are showing a narrowing of the gap between Birmingham and the national average. 2. Stronger guidance has been provided to schools to ensure appropriate governance around finance to avoid the risks of schools moving into deficit. Where schools are demonstrating financial concerns a cross directorate group made up of School Financial Services, HR, Audit, Governor Support and Infrastructure works together to address wider concerns and co-ordinate support. 3. A more focused programme of work has been agreed with Internal Audit to consider financial risks within schools. The Directorate Management team will review on a termly basis the work of Internal Audit with high risk reports acted upon. 4. In addition to this, a monthly Schools Causing Concern meeting takes place and there are regular conversations with Ofsted and the Regional Schools Commissioner. 5. There is an ongoing focus on addressing resilience in schools through providing support, advice and training on safeguarding and extremism. This is overseen through the Education Safeguarding Board.	**Implementation Date:** Immediate and Ongoing **Responsible Officers:** Corporate Director of Children & Young People Assistant Director for Education - Safeguarding