

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to: Audit Committee

Report of: Acting Assistant Director, Audit and Risk Management

Date of Meeting: 15th March 2016

Subject: Birmingham Audit – Proposed Internal Audit Plan 2016/17

Wards Affected: All

1. Purpose of report.

The purpose of the report is to update members on progress in developing the 2016/17 internal audit plan.

2. Recommendations

2.1 That members of the Audit Committee:

- 2.1.1 note the progress being made in the development of the 2016/17 internal audit plan;
- 2.1.2 consider whether there are any areas they wish to suggest for inclusion in the audit risking process; and
- 2.1.3 agree to consider and approve the detailed plan at their June 2016 meeting.

3. Background and Introduction

- 3.1 It is a statutory requirement for Local Authorities to have an internal audit function. Within the Council this function is delivered in house by Birmingham Audit.
- 3.2 Birmingham Audit provides a range of internal audit and counter fraud services. These include audit reviews of the Council's financial and operational systems, computer audit reviews, corporate and social housing fraud investigations, fraud awareness and proactive fraud detection work, corporate governance and risk management reviews and compliance reviews to check adherence to Council policies, procedures and systems. The legislative framework and professional standards and guidelines we are required to adhere to include:
- Local Government Act 2002
 - Accounts and Audit Regulations 2015
 - Fraud Act 2006
 - Social Housing Fraud (Power to Require Information) Regulations 2014
 - Council Tax Reduction Schemes (Detection of Fraud and Enforcement) Regulations 2013
 - The Public Sector Internal Audit Standards
- 3.2 The annual audit plan is prepared using a risk based methodology that enables the provision of an independent opinion, on the adequacy and effectiveness of the systems of internal control in place; (comprising of risk management, corporate governance, financial and operational controls).
- 3.3 This assessment has regard for the adequacy of the overall assurance framework that is in place across the Council. Whilst Internal Audit is a key part of this framework, it also includes internal and external processes such as day to day management controls, performance management, 'inspection' functions, the directorate assurance statement process, and assurances provided by external sources; such as the External Auditor.
- 3.4 This assurance feeds into the Annual Governance Statement. The emphasis of internal audit provision remains reviewing the controls around the risks that may prevent the Council from meeting its objectives and detecting and preventing fraud. Within this there is a need to ensure that legislative and regulatory requirements and professional standards are met.
- 3.5 We are continuing to review, revise and continually update our working practices and methodologies. In particular, we are continuing to use technology and the data at our disposal to work 'smarter' and ensure the most efficient and effective use of the available resources.

4. Internal Audit Plan 2016/17

- 4.1 Our estimated number of audit days available for 2016/17 is 5443. This compares to 4692 in the 2015/16 plan (an increase of 751 days or 16%). This increase is as a result of additional temporary resources being made available, via the School Improvement Programme, to enable us to visit all maintained schools over a 2 year period and review their governance and finance arrangements together with agreed aspects of safeguarding.
- 4.2 As part of our planning process we have undertaken an assurance mapping exercise across the whole of the organisation. This involves identifying the key objectives and priorities of the Council, the systems of governance and financial control, together with the risks associated with their achievement / operation. A view as to where 'assurance' over activities can be gained is then formed. In undertaking this mapping exercise we have used our knowledge and experience of the organisation as well as liaising with key stakeholders including Audit Contact Officers, Directorate Management Teams and Strategic Directors.
- 4.3 The first call on our time is to provide an assurance around the main financial systems. We are continuing to utilise data analytical techniques to review transactions and controls within the main financial systems. This is less resource intensive and has enabled us to provide greater coverage and a more informed assurance. In completing our work in this area we liaise closely with the Council's External Auditors. We have allocated 920 days for the main financial systems work in 2016/17 the main areas we intend to cover are:
- Payroll
 - Accounts Payable
 - Accounts Receivable
 - Procurement - incorporating Contract Auditing
 - Council Tax
 - NNDR
 - Benefits
 - Financial Management/Control
 - Asset Management/Fixed Assets
 - PFI
 - Rent Collection and Charges
 - Government Grant Claims
 - Non invoiced income
 - Income and Expenditure in Schools
 - Carefirst
 - Direct Payments

- 4.4 We have also 'ring-fenced' a number of days to support the Corporate Fraud Team and complete the school visit programme.
- 4.5 The Corporate Fraud Team undertake investigations on allegations of internal fraud involving members of staff, Council members, suppliers of goods and services to the Council and/or organisations that are in receipt of Council funding. The team also undertakes pro-active anti-fraud work and develops and delivers fraud awareness training throughout the organisation. Within the 2016/17 plan we have allocated 840 days for this work. We use a referral assessment process to determine which referrals we will investigate; this ensures our specialist skills are deployed in the areas of greatest risk. Where we are not able to devote resources to investigating a referral we will continue to provide support and guidance to managers as appropriate.
- 4.6 The Council's Education Improvement Plan is aimed at implementing significant cultural and procedural change within the management of schools. In July 2015 additional temporary funding was made available to Birmingham Audit to support the establishment of a schools visiting team. 950 days have been allocated within the 2016/17 plan for the completion of these visits. A schedule of the schools to be visited is agreed on a monthly basis in consultation with representative from the Directorate for People.
- 4.7 The remainder of our available resource will be allocated based on our assessment of risk. We will use our risking model to 'score' all potential 'auditable' areas and then rank them in order of priority. There are a number of factors that are considered as part of the risk model:
- assessment of the adequacy of the control environment;
 - strategic alignment to organisation priorities;
 - materiality;
 - sensitivity/reputational risk;
 - assessment of management controls;
 - management concerns;
 - assurance based on internal audit work/knowledge and how recent that was;
 - inclusion in the corporate risk register;
 - assurance based on scrutiny reviews;
 - assurance based on external audit or other inspectorate work and how recent that was; and
 - assurance gained from other sources, including that gained from operational and performance management.
- 4.8 The risk assessment is designed to be dynamic and responsive to changing circumstances. We continually review and update our assessment. The ongoing changes across the organisation may result in in-year changes to the plan if circumstances demand.

- 4.9 The views of the Audit Committee are important to the internal audit planning process. To further develop engagement on this it is our intention to bring the detailed plan proposals to the June Audit Committee for member's consideration and approval.

5. Legal and Resource Implications

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

6. Risk Management & Equality Analysis Issues

- 6.1 Risk management forms an important part of the internal control framework that the Council has in place.
- 6.2 We have undertaken Equality Analysis for all of our key policies and procedures and where appropriate have developed action plans to address any potential adverse impacts.

7. Compliance Issues

- 7.1 Decisions are consistent with relevant Council Policies, Plans or Strategies.

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