

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

**BIRMINGHAM CITY COUNCIL**

**AUDIT COMMITTEE**

**TUESDAY, 21 JUNE 2016 AT 14:00 HOURS**  
**IN COMMITTEE ROOMS 3 & 4, COUNCIL HOUSE, VICTORIA**  
**SQUARE, BIRMINGHAM, B1 1BB**

**A G E N D A**

**1 NOTICE OF RECORDING/WEBCAST**

Chairman to advise/meeting to note that this meeting will be webcast for live or subsequent broadcast via the Council's Internet site ([www.birminghamnewsroom.com](http://www.birminghamnewsroom.com)) and members of the press/public may record and take photographs. The whole of the meeting will be filmed except where there are confidential or exempt items.

**2 APOLOGIES**

To receive any apologies.

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

- i. To note the resolution of the City Council appointing the Committee, Chair and Members to serve on the Committee for the period ending with the Annual Meeting of the Council in 2017.

**Labour**

Councillors Bore, Burden, Chatfield (Chair), Shah and Spencer

**Conservative**

Councillors M Jenkins and Robinson

**Liberal Democrats**

Councillor Tilsley

- ii. To elect a Deputy Chair, for the purpose of substitution for the Chair if absent, for the period ending with the Annual Meeting of the Council in 2017.

<b><u>5 - 6</u></b>	4	<b><u>FUNCTIONS - AUDIT COMMITTEE</u></b>	To note that the City Council has agreed this Committee's functions as set out in the attached schedule.
	5	<b><u>DECLARATIONS OF INTEREST</u></b>	Members are reminded that they must declare all relevant pecuniary interests and non-pecuniary interests relating to any items of business to be discussed at this meeting. If a pecuniary interest is declared a Member must not speak or take part in that agenda item. Any declarations will be recorded in the minutes of the meeting.
<b><u>7 - 12</u></b>	6	<b><u>MINUTES - 15 MARCH 2016 (PUBLIC)</u></b>	To note the public part of the Minutes of the last meeting.
	7	<b><u>BIRMINGHAM EDUCATION PARTNERSHIP RISK</u></b>	Verbal Report by Seamus Gaynor, Head of Strategic Management, People, and John Sidebottom, Education Programme Manager.
<b><u>13 - 18</u></b>	8	<b><u>BIRMINGHAM AUDIT - SCHOOLS VISIT PROGRAMME</u></b>	Report of Acting Assistant Director, Audit & Risk Management
<b><u>19 - 50</u></b>	9	<b><u>BIRMINGHAM AUDIT - ANNUAL REPORT 2015/16</u></b>	Report of Acting Assistant Director, Audit & Risk Management.
<b><u>51 - 56</u></b>	10	<b><u>ANNUAL REVIEW OF THE EFFECTIVENESS OF THE SYSTEMS OF INTERNAL AUDIT</u></b>	Strategic Director Finance & Legal
<b><u>57 - 76</u></b>	11	<b><u>2015/16 ANNUAL GOVERNANCE STATEMENT</u></b>	Report of the Strategic Director - Finance & Legal
<b><u>77 - 92</u></b>	12	<b><u>GRANT THORNTON PROGRESS REPORT</u></b>	Report of the External Auditor
	13	<b><u>DATES AND TIME OF MEETINGS</u></b>	To approve a schedule of dates for the Committee's meetings during 2016/2017.

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

**2016**

26 July  
12 September (Monday)  
22 November

**2017**

31 January  
28 March

14 **OTHER URGENT BUSINESS**

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

15 **AUTHORITY TO CHAIRMAN AND OFFICERS**

Chairman to move:-

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

16 **EXCLUSION OF THE PUBLIC**

That in view of the nature of the business to be transacted which includes exempt information of the category indicated the public be now excluded from the meeting:-

Minutes - Exempt Paragraphs 3 and 7

**P R I V A T E   A G E N D A**

17 **MINUTES - 15 MARCH 2016 (PRIVATE)**

Item Description

18 **OTHER URGENT BUSINESS (EXEMPT INFORMATION)**

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





## **AUDIT COMMITTEE**

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

### **Functions**

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



# BIRMINGHAM CITY COUNCIL

<b>AUDIT COMMITTEE</b> <b>15 MARCH 2016</b>
--

**MINUTES OF A MEETING OF THE**  
**AUDIT COMMITTEE HELD ON TUESDAY**  
**15 MARCH 2016 AT 1400 HOURS, IN**  
**COMMITTEE ROOM 6, COUNCIL**  
**HOUSE, BIRMINGHAM**

**PRESENT:** - Councillor Sam Burden in the Chair;

Councillors Paul Tilsley, Barry Henley and Fergus Robinson.

\*\*\*\*\*

**APOLOGIES FOR ABSENCE**

863 Apologies were received on behalf of Councillors Muhammad Afzal and Ken Wood.

---

**MINUTES**

864 **RESOLVED:-**

That the public minutes of the Committee meeting held on 26 January 2016 be confirmed and signed by the Chairman.

**Matters Arising**

A. Date of next meeting

865 The Chairman advised that the next meeting of the Audit Committee will not be held on 28 June 2016 as previously notified. A rescheduled date will be circulated to Members and officers in due course.

866 B. The future role of Audit Committee

The Chairman proposed and it was agreed by Members present that the Deputy Leader be invited to attend the next meeting of this Committee to give advice and guidance on the way forward and highlight any potential risk factors, particularly financial risks.

The Chairman advised that he would circulate an update / Information note to all Members of the Committee in due course.

---

**SCHOOLS PRIVATE FINANCE INITIATIVE**

The following report of the Head of Contracts Management, Education and Infrastructure was submitted:-

(See Document No. 1)

Mike Jones, Head of Contracts Management, Education and Infrastructure introduced the report, highlighted the salient points and responded appropriately to comments and questions raised by Members.

It was

867

**RESOLVED:-**

- i) That the information contained in the report outlining the current financial pressures impacting the Council in connection with long-term schools PFI contracts be noted;
- ii) That the progress being made on addressing the Council's 'affordability gap' over the period January 2015 to January 2016 be noted.

---

**CORPORATE RISK REGISTER UPDATE**

The following report of Acting Assistant Director, Audit and Risk Management was submitted:-

(See Document No. 2)

The officer introduced the report and requested that the following amendments be made to the risk schedule:

- a) merge risks 2 and 23
- b) risk 03 (page 13) – reword PFI changes to schools.

The following comments were raised by Members:

- Consideration be given to a new corporate risk around the Birmingham Education Partnership failing to effectively deliver the required school improvements. Issue to be initially raised with officers from the Directorate.
- Consideration be given to adding a risk around the impact of a potential pension deficit.
- Risk 2015/16.14 to include the risk associated with the delivery of savings.
- It was requested that a brief description / summary of each risk be recorded in the schedule

868

**RESOLVED:-**

That the report be noted and that approval be given to the list of recommendations as outlined in the report.

**RISK MANAGEMENT PROCESS**

The following report of the Acting Assistant Director, Audit and Risk Management was submitted:-

(See Document No. 3)

Craig Price, Acting Assistant Director, Audit and Risk Management introduced the report and highlighted the salient points.

It was -

**RESOLVED:-**

869                      Members agreed to continue to support the risk management process.

---

**BIRMINGHAM AUDIT – PROPOSED INTERNAL AUDIT PLAN 2016/17**

The following report of the Acting Assistant Director, Audit and Risk Management was submitted:-

(See Document No. 4)

Members requested:

- A report on the school audit programme. Report requested for next meeting.
- Recruitment within schools be considered in the risk assessment for the 2016/17 Internal Audit Plan

**RESOLVED:-**

- 870                      (i)            Noted progress being made in the development of the 2016/17 internal audit plan;
- (ii)           Agreed to consider and approve the detailed plan at the next meeting of the Audit Committee.
- 

**ANNUAL GOVERNANCE STATEMENT - PROGRESS**

The following report of the Strategic Director, Finance and Legal was submitted:-

(See Document No. 5)

Sarah Dunlavey, Assistant Director, Financial Services introduced the report and highlighted the main points.

It was -

871

**RESOLVED:-**

That the report be noted.

---

**GRANT THORNTON – THE AUDIT PLAN FOR BIRMINGHAM CITY COUNCIL  
2015/16**

The following report of the external Auditor was submitted:-

(See document No. 6)

Phil Jones and Richard Percival, Grant Thornton introduced the Audit Plan and responded appropriately to comments raised by Members.

It was -

872

**RESOLVED:-**

That the Audit Plan report be noted.

---

**INFORMING THE AUDIT RISK ASSESSMENT FOR BIRMINGHAM CITY COUNCIL**

The following report of the external Auditor was submitted:-

(See Document No. 7)

Phil Jones and Richard Percival, Grant Thornton introduced the report and responded appropriately to comments raised by Members.

It was -

873

**RESOLVED:-**

That the report be noted.

---

**GRANT THORNTON – BIRMINGHAM CITY COUNCIL PROGRESS REPORT AND  
UPDATE YEAR ENDED 31 MARCH 2016**

Report of the External Auditor was submitted:-

(See Document No. 8)

Phil Jones and Richard Percival, Grant Thornton introduced the report and responded appropriately to comments raised by Members.

It was -

874

**RESOLVED:-**

That the report be noted.

---

**ADOPTION OF ACCOUNTING POLICIES FOR 2015/16**

The following report of the Strategic Director, Finance and Legal was submitted:-

(See Document No. 9)

The officer introduced the report and it was -

875

**RESOLVED:-**

- i) That the Audit Committee approve and adopt the accounting policies for the determination of the Council's accounts for 2015/16;
  - ii) That the implications for future years accounts arising from the changes in accounting standards be noted.
- 

**LEARNING FROM COMPLAINTS**

The following report of the Service Director, Customer Services was submitted:-

(See Document No. 10)

Members welcomed the report but felt that further attention should be given to the work undertaken in the depot in relation to the work undertaken in the call centre.

876

**RESOLVED:-**

That the report be noted.

---

**RISK BASED VERIFICATION FOR HOUSING BENEFIT AND COUNCIL TAX SUPPORT CLAIMS**

877

The following report of the Service Director, Customer Services was noted:-

(See Document No. 11)

---

**FUTURE AGENDA ITEMS**

**Role and Functions of the Audit Committee**

Members agreed that the Deputy Leader be invited to attend the next meeting to give advice and guidance on the way forward and highlight any potential risk factors, particularly financial risks.

878                    **RESOLVED:-**

That the points raised in the preamble be noted.

---

**OTHER URGENT BUSINESS**

879                    No other urgent business was raised.

---

**AUTHORITY TO CHAIRMAN AND OFFICERS**

880                    **RESOLVED:-**

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

---

**EXCLUSION OF THE PUBLIC**

881                    **RESOLVED:-**

That, in view of the nature of the business to be transacted, which includes the following exempt information, the public be now excluded from the meeting:-

<b><u>Agenda Item etc</u></b>	<b><u>Paragraph of Exempt Information Under Revised Schedule 12A of the Local Government Act 1972</u></b>
Minutes – 26 January 2016 (Private)	3 and 4
Risk Based Verification for Housing Benefit and Council Tax Support Claims	3 and 4
Other Urgent Business (Exempt Information)	3 and 4



## BIRMINGHAM CITY COUNCIL

### PUBLIC REPORT

<b>Report to:</b>	<b>Audit Committee</b>
<b>Report of:</b>	<b>Acting Assistant Director, Audit &amp; Risk Management</b>
<b>Date of Meeting:</b>	<b>21<sup>st</sup> June 2016</b>
<b>Subject:</b>	<b>Birmingham Audit - Schools Visit Programme</b>
<b>Wards Affected:</b>	<b>All</b>
<b>1. Purpose of Report</b>	
1.1 To provide the Audit Committee with an update on the establishment and output of Birmingham Audit's school visiting programme.	
<b>2. Recommendations</b>	
2.1 Members note the contents of this report.	

### **3. Background to Establishment of Team**

- 3.1 Birmingham Audit has re-established a schools visiting team as part of the Economy Directorate's support for the Education Improvement Plan. Following discussions with senior management within the Directorate for People it was felt that a programme of audit visits, to review aspects of governance, finance and safeguarding, would help to monitor key elements of practice within schools and provide the opportunity to deliver 'early warning' intelligence to the Directorate on potential issues of concern. Additionally, the work would give additional assurance to the Directorate on the control environment in place within Birmingham schools. As part of the Directorate's funding package to deliver the Education Improvement Plan Birmingham Audit was allocated funding over a two year period (approved on 1 April 2015) to establish the new schools visiting team.

### **4. School Visiting Team Structure**

- 4.1 The structure of the visiting team has been influenced by the funding allocated, the initial time frame for which it has been guaranteed, and the requirement to maximise the number of schools visited within the funding timeframe.
- 4.2 The team is led by a Principal Auditor who reports directly to the Group Auditor responsible for the Directorate for People. The Principal Auditor has responsibility for liaison with the Directorate, undertaking the more complex school visits, and for the management and direction of 4 Audit Assistants who undertake the school visits.

### **5. The Programme of Work**

- 5.1 The programme of work has evolved through collaborative work with the Directorate and reflects issues and key risk areas identified within the Education Improvement Plan. Fundamental to ensuring that the programme is effective and adds value to the Directorate, and does not overly burden schools at a time when there are many inspectorate regimes, has been the need to ensure that the work does not duplicate work being delivered elsewhere within the Directorate.
- 5.2 The initial programme was signed off by Colin Diamond (Executive Director, Directorate for People) and Kay Reid (Assistant Director, Audit and Risk Management) in July 2015. It has changed since its initial inception both in response to feedback from school Governors and Head Teachers, and to reflect changing Directorate for People priorities.
- 5.3 The work programme, which is currently being reviewed in line with changing priorities and structures within the Directorate for People, primarily focusses on Governance, Finance and elements of Safeguarding. The review seeks to identify whether the following objectives are being met:

- That an appropriate governance framework has been established.
- That Governance arrangements at the school are working effectively.
- That Financial Governance oversight is in place and working effectively.
- That the Governing Body and Senior School Leadership are effective in Setting vision, ethos and strategic direction.
- That the Governing Body and Senior Leadership are happy with the way the school is run, a culture of tolerance and mutual respect is in place in the school.
- That the school budget is being planned and managed effectively.
- That there is compliance with the schools delegation framework.
- That there is compliance with key controls for managing attendance.
- Controls are in place for aspects of Safeguarding (Section 175, Prevent and No Platform Only).

5.4 Schools to be visited are selected on a monthly basis. Initially they are randomly selected, after which the list of proposed visits is provided to officers within the Directorate for People for review. This gives them the opportunity to inform us of schools to be removed from the list (due to issues known within the Directorate) or add alternative schools if there is a need for an early audit visit. Once responses have been received schools are notified.

## **6. Liaison with the Directorate for People**

6.1 Consultation and liaison with the Directorate has been undertaken by the Principal Auditor through attending the Cross Cutting Group, Improvement Plan Programme Board and Senior Leadership Team. Also individual meetings were held with key individuals to develop the areas for review. There has been significant engagement with the school community both in terms of discussion areas of review and delivering presentations to interested parties including School Forums and the Birmingham Bursar group.

6.2 As well as the visits programme Birmingham has responded to four requests from the Directorate to visit schools where it has been deemed that there are performance issues. This work is generally specifically targeted and only elements of the agreed work programme would be applicable.

## **7. School Feedback**

7.1 The initial work programme did create some resistance, and critical feedback, from schools receiving audit visits, however once the work programme had been reviewed and amended (in conjunction with schools and the Directorate) feedback has been very positive. There have been a significant number of positive comments from Head Teachers and Governors including:

“The audit has been an exacting exercise but well worth while...”

“We have found it a very helpful experience and something we can learn from”

“The process has been a learning experience with guidance for future action points clarified during the audit”

“The school’s experience was very positive. There were recommendations due to the deep interrogation of our systems/processes and these will .... Improve the efficiency of our school”

“Whilst the Internal Audit, by its very nature, is a stressful experience, I have found it useful, as it provides the school with an external validation of the school's current position and what is needed to improve further”

## **8. Outcomes and Issues**

- 8.1 The audit visit programme commenced at the end of September 2015 and during 2015/16 a total of 36 visits were undertaken. (This is lower than initially predicted due to staff resource issues). We anticipate a further 33 visits will be completed by the end of July 2016/17.
- 8.2 The schools visited generally had effective systems of control in place and there was clearly an intention to do things correctly and for the benefit of the school. There are areas for development which would further improve both strategic and operational delivery, but no significant weaknesses that would give us undue concern regarding the management of the schools visited was identified.
- 8.3 The key findings identified are summarised below:
  - 8.3.1 Governance - Schools are high pressure environments, and the demands on Governing Bodies are increasing all the time. Workload pressures have contributed to delays in Governing Bodies responding to the need to self-evaluate their skills and their impact on the school.
  - 8.3.2 Financial Governance - Weaknesses were found in the delegation framework in a proportion of schools, which do not stop the school functioning effectively but means that there is not the required clarity around financial responsibilities. Improvements were required to the production and submission of the Schools Financial Value Standard return and the Statement of Internal Control, key documents in terms of school self-evaluation.

- 8.3.3 Strategic Oversight – Governing Bodies were still developing an overarching school strategy which should be used to drive the improvement plan. Governing Bodies were not formally approving the School Improvement Plan.
- 8.3.4 Budget Planning – Whilst day to day financial management was well established there were a number of schools that are relying on their carry forward balance surplus to set a balance budget. This poses a risk for future years when the surplus has been utilised unless actions plans to reduce expenditure/increase income are developed.
- 8.3.5 Delegated Powers - There has been a degree of non- compliance with school financial procedures and the delegation framework for schools expenditure, in-particular the effective monitoring of cumulative expenditure to ensure value for money obtained.
- 8.3.6 Safeguarding – Schools were well aware of their responsibilities in relation to safeguarding their children and take that responsibility seriously. However, the need for improvements were identified in respect of the effective monitoring of IT and Internet use and undertaking due diligence prior to lettings for both safeguarding and the ‘No Platform for Extremism Policy’ (Responding to speakers promoting messages of hate and intolerance in Birmingham) requirements.
- 8.3.7 Attendance - Overall attendance was well managed and effective arrangements were in place. Two areas were identified that require further development – the retention of sufficient records where pupils leave a school in year, and ensuring correct code were used to record attendance.

## **9. 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.

## **10. Risk Management and 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 assurances we give on school strategic and operational management.

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

## **11. Compliance issues**

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

## **12. Recommendations**

Members note the contents of this report.

.....  
**Craig Price**  
**Acting Assistant Director, Audit & Risk Management**

**Contact Officers:**      **Don Price, Group Auditor**  
                                 **Karen Smith, Principal Auditor, Schools**

**Telephone No:**          **0121 303 2970**

**e-mail address:**        [don.price@birmingham.gov.uk](mailto:don.price@birmingham.gov.uk)  
                                 [karen.p.smith@birmingham.gov.uk](mailto:karen.p.smith@birmingham.gov.uk)

## BIRMINGHAM CITY COUNCIL

### PUBLIC REPORT

<b>Report to:</b>	<b>AUDIT COMMITTEE</b>
<b>Report of:</b>	<b>Acting Assistant Director, Audit &amp; Risk Management</b>
<b>Date of Meeting:</b>	<b>21<sup>st</sup> June 2016</b>
<b>Subject:</b>	<b>Birmingham Audit - Annual Report 2015/16</b>
<b>Wards Affected:</b>	<b>All</b>

#### 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 2015/16, and, in section 7, on compliance with the requirements set out in the Public Sector Internal Audit Standards (PSIAS).
- 1.3 It also sets out the Internal Audit Charter for 2016/17 (Appendix C) and the proposed Internal Audit plan for 2016/17 (Appendix D).

#### 2. RECOMMENDATIONS

- 2.1 Members are asked to accept this report and the annual assurance opinion for 2015/16 that is detailed in paragraph 4.5. Reasonable assurance is reported.
- 2.2 Members are asked to approve the Internal Audit Charter.
- 2.3 Subject to any amendments agreed in the discussion at Audit Committee, Members are asked to give their approval to the 2016/17 annual internal audit plan.

### **3. BACKGROUND**

- 3.1 The 2015/16 audit plan was prepared in accordance with the requirements of the 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.
- 3.2 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. Our 2015/16 audit plan reflected these changes by concentrating on those areas of highest risk. We have applied the same approach to our 2016/17 audit planning process where further and even more fundamental change is expected.

### **4. ASSURANCE**

- 4.1 The audit plan is prepared and delivered to enable me to provide an independent opinion on the adequacy and effectiveness of the systems of internal control in place (comprising risk management, corporate governance and financial control). My opinion will form part of the Annual Governance Statement (AGS), which the Council is legally required to produce.
- 4.2 As my opinion is based on professional judgement, backed up by sample testing, I can only ever provide, at best, 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.
- 4.3 Our work is carried out to assist in improving control. However, management is responsible for developing and maintaining an internal control framework. This framework is designed to ensure that:
- the Council's resources are utilised efficiently and effectively;
  - risks to meeting service objectives are identified and properly managed; and
  - corporate policies, rules and procedures are adequate, effective and are being complied with.
- 4.4 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 2015/16 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%

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

## 5. ADDED VALUE SERVICES

- 5.1 Although my primary responsibility is to give an annual assurance opinion, I am also aware that for the Internal Audit service to be valued by the organisation it needs to do much more than that. There needs to be a firm focus on assisting the organisation to meet its aims and objectives and on working in an innovative and collaborative way with managers to help identify new ways of working that will bring about service improvements and deliver efficiencies. Examples of how we have done this during the year include:
- 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.
  - The completion of pro-active fraud work. This included an exercise that compared dormant network user accounts to salary payments resulting in the identification of a number of potential salary overpayments. This data match is now run on a monthly basis to aid earlier identification of overpayments.
  - Work with colleagues from Business Rates, to verify the accuracy of Business Rates roll and identify 'missed' developments or changes to property usage which could result in increased revenue for the Council.
  - Work with the Programme Team responsible for delivery of the Business Growth Programme (for which the Council is the Accountable Body (AB)) to ensure that robust management controls and processes are in place.
  - Facilitation of a workshop for officers involved in discharge of the Council's AB function, to increase awareness and understanding of the legal and procedural framework, the risk of fraud, and share and discuss good practice.
  - Assisted in facilitating demand management workshops for the Children's Services work-stream of the Future Council Programme.
  - Helping Acivico in setting up their governance framework.

- Working with officers from the Directorate of People to help ensure the Education Improvement Plan is delivered.
- Supporting the production of the Section 11 Corporate Safeguarding return.

## **6. QUALITY, PERFORMANCE AND CUSTOMER FEEDBACK**

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

### **6.2 Quality Assurance**

The provision of a quality service continues to be important. Internal quality audits on our ISO processes are undertaken annually, most recently in April 2016. As in previous years only minor issues of non-compliance were identified and actions have been taken to correct these.

During the year, Birmingham Audit retained their accreditation to both the internationally recognised and externally assessed information security standard ISO27001:2013, and the quality standard ISO9001:2008. However, wef 1<sup>st</sup> April 2016, we have ceased the formal ISO9001 accreditation. Our quality processes have now been incorporate into the Information Security Manual, and the ISO27001 accreditation. This has reduced costs and the administration time associated with maintaining and updating two separate manuals, whilst maintaining our robust processes and procedures.

### **6.3 Inputs**

The 2015/16 internal audit plan contained 4,692 days, and I am satisfied that there were adequate staffing resources available to me to deliver the agreed plan.

### **6.4 Outputs**

During the year we issued a total of 198 final reports, containing 1483 recommendations. For comparison purposes during 2014/15 we issued 194 final reports containing 897 recommendations. The increase in the number of recommendations relates in the main to recommendations following school visits.

<b>Reports by Type</b>	
Internal Audit Reviews	105
Follow up Reviews	35
School Visits	27
Investigations	24
Proactive / Management Reviews	7
Total	198

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

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.

Of the 140 reports (105 Internal Audit and 35 Follow up Reviews) issued during the year, 1 was given a red level 3 risk rating, 73 had an amber level 2 rating and 66 had a green level 1 rating.

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

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

## 6.5 Performance and Customer Feedback

As at 31<sup>st</sup> March 2016 we had completed 97% of planned jobs against an annual target of 95%.

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

## 6.6 Corporate Fraud Team

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 was 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.

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

	2014/15	2015/16
Number of outstanding investigations at the beginning of the year	40	19
Number of fraud referrals taken on during the year	112	139
Number of investigations concluded during the year	133	144
Number of investigations outstanding at the end of the year	19	14

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.

In addition to the above, the team have carried out proactive exercises looking at Direct Payments, Payroll Overpayments, and Nursery Income, as well as co-ordinating the processing of data matches derived from the National Fraud Initiative. Work was also started on a project using data analytics to continually monitor the main financial systems for fraud and error, and the data matches identified to date are currently under review. The Team have delivered fraud awareness training to Planning & Regeneration staff, and have issued various bulletins to raise awareness of fraud.

The Team have continued to work with directorate staff to implement the anti-fraud strategy for housing. This includes advising on records management, photo ID's, the new allocations policy, and providing training and support to front line staff in the use of the data warehouse to verify details submitted on housing / homeless / Right to Buy applications. Last year the team recovered 95 properties, cancelled 300 housing applications prior to letting, and reduced the points on a further 77 applications. The Team also identified Housing Benefit overpayments totalling £562,291 and Council Tax changes of £180,167. 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.

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

- 7.1 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.
- 7.2 During 2015/16 we have undertaken a full self-assessment to assess Birmingham Audit's level of compliance with the standards. This identified that Birmingham Audit's practices were generally in compliance with the PSIAS, and only minor changes were necessary to ensure all requirements were met. The changes have / are in the process of being actioned.
- 7.3 In March 2016 the Core Cities Chief Auditor Group agreed a Terms of Reference in relation to undertaking external assessments against the PSIAS. Birmingham Audit's assessment will be undertaken by colleagues from Bristol. Following the external assessment a report will be produced, and include (if necessary) an improvement plan. The results of this independent assessment will be shared with the Audit Committee.

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

On an annual basis Members are asked to approve the Internal Audit Charter. The charter for 2016/17 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.

## **9. Internal Audit Plan 2016/17**

- 9.1 The 2016/17 plan contains 5,443 days (4493 days excluding the Schools Team). This compares to 4,692 days in 2015/16. The increase is due to the creation of a 'Schools' audit team to support delivery of the Education Improvement Plan.
- 9.2 As in previous years the audit plan has been compiled using our professional judgement and is based on our assessment of risk.
- 9.3 When compiling the plan we have taken into account the views of other key stakeholders throughout the organisation.
- 9.4 In order to meet the standards required of us and as contained within the legislative and professional framework surrounding the delivery of an internal audit service, there is a need to ensure sufficient coverage of the adequacy and effectiveness of systems of internal control in relation to financial control, risk management and corporate governance. A careful balance therefore has to be struck to achieve the optimum use of resources available. This plan will be subject to in year amendment and modification to reflect shifting priorities and emerging issues as policy changes are implemented.
- 9.5 As in previous year's we have used our risking model to 'score' all potential 'auditable' areas. The factors considered as part of the risk model are:
- Financial materiality
  - Assessment of the adequacy of the control environment
  - Strategic alignment to organisation priorities
  - Sensitivity / reputational risk
  - Assessment of management
  - Assurance based on internal audit work / knowledge and how recent that was
  - Assurance based on external audit or other inspectorate work and how recent that was
  - Direct assurance gained from operational management
  - Inclusion in the Corporate Risk Register and Council Business Plan

For each potential auditable area each of these factors is given a numerical value which feeds into a formula to arrive at an overall 'score'. Using these scores we are then able to rank all potential auditable areas in order of priority based on our assessment of risk and on this basis determine how best to deploy the resources available to us. The risk assessment is designed to be dynamic and responsive to changing circumstances. We will review and update our assessment throughout the year. Ongoing changes across the organisation may result in in-year changes to the plan.

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

	15/16 %	15/16 Days	16/17 %	16/17 Days
<b>Number of Audit Days in the annual plan</b>	<b>100%</b>	<b>4,692</b>	<b>100%</b>	<b>5,443</b>
Main financial systems	21	986	16	860
Business controls assurance	44	2038	35	1875
Investigations	17	800	15	840
Schools (Non Visits)	3	140	4	195
Schools (Visits)	-	-	17	950
Follow up work	5	250	4	225
Ad-hoc work	4.5	218	5	273
Planning & reporting	4.5	215	3	180
City initiatives	1	45	1	45

- 9.7 Appendix D contains the detailed annual plan.
- 9.8 We are continuing to invest in the audit data warehouse and expand our data analytics capacity and capability across all areas. This approach is far less time consuming and labour intensive than traditional manual transaction testing and gives a much wider view on the system and service as a whole.
- 9.9 There is clearly a need to retain an emphasis on providing an assurance around the management of risk and control. However, we are also using our data warehouse and analytics capability to identify opportunities to improve service delivery. This element to our work has been very well received by service managers.
- 9.10 As always the views of Members on the overall content of the proposed plan and any suggestions for how specific elements of the plan should be used are welcomed.
- 9.11 A half yearly report will be produced to update Members on progress with the delivery of the 2016/17 plan.

## 10. LEGAL AND RESOURCE IMPLICATIONS

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

## 11. RISK MANAGEMENT & EQUALITY ANALYSIS ISSUES

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

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

## **12. COMPLIANCE ISSUES**

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

## **13. RECOMMENDATIONS**

- 13.1 Members are asked to accept this report and the annual opinion for 2015/16 that is contained in 4.5.
- 13.2 Members are asked to approve the Internal Audit Charter as shown in Appendix C.
- 13.3 Subject to any amendments agreed in the discussion at committee, Members are asked to give their approval to the 201/17 annual internal audit plan outlined in section 9 and contained in more detail in Appendix D.

.....  
**Craig Price**  
**Acting Assistant Director, Audit & Risk Management**

**Contact officer: Craig Price, Acting Assistant Director, Audit & Risk Management**

**Telephone No: 0121 303 3475**

**E-mail address: craig\_price@birmingham.gov.uk**



## 14. SIGNIFICANT ISSUES ARISING FROM THE DELIVERY OF THE INTERNAL AUDIT PLAN DURING 2015/16 AND A SUMMARY OF OUR WORK ON THE MAIN FINANCIAL SYSTEMS

### 14.1 RED HIGH RISK REPORTS

During the year we issued 1 report, where we identified a 'high' risk rating for the Council. Brief details of the issues of concern highlighted in this report together with the management response are detailed below:

**Deprivation of Liberty Standards** - In October 2013 two separate High Court judgements ruled that individuals receiving residential care had been illegally deprived of their liberty as defined in the Mental Capacity Act 2005. The rulings resulted in a new 'acid test' being required, to look at whether the individual is subject to continual supervision and control and whether they are free to leave. To identify whether deprivation of liberty is appropriate a Deprivation of Liberty Safeguarding (DoLS) assessment must be completed by a Best Interest Assessor (BIA) for individuals in hospitals and care homes. The authorisation of these assessments must be completed by the local authority, and reviewed within 12 months.

Our review identified concerns relating to the management, monitoring and completion of (DoLS) assessments:

- As at 3<sup>rd</sup> September 2015 the backlog of assessments was 1706, the oldest of which was received in May 2014. Additionally, the requirement to reassess within 12 months was not being met.
- The increasing expenditure for DoLS had not been budgeted for.
- No overarching strategic direction / approach had been established, and actions plans drafted to assist with managing the workload / related issues, were not being monitored or managed.
- Whilst the directorate were working to increase the resources to undertake assessments, the BIA Team was only at 46% capacity.

Since the completion of our work the Directorate have kept to the plan they set out in early 2015 to increase the size of the team and associated resources whilst also engaging outside capacity. This enables them to address the back log and then have a team large enough to meet the new "normal" referral rate, including annual renewals. They continue to monitor the position very closely. Progress is reported every month to the Cabinet Lead Member for Health and Social Care. The back log has fallen steadily from a high of 1906 unallocated cases in October 2015 to a figure last reported for April of 1016. The external agency contract commenced at the end of last month, so the rate of reduction should now escalate. The Directorate aim to eradicate the back log within 12 months. The Council received one-off Department of Health grant funding in 2015/16 to help with

these pressures. There is a difficult balance to be struck between the financial and the litigation risks.

## **14.2 RISK MANAGEMENT**

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

## **14.3 CORPORATE GOVERNANCE**

The highest standards of corporate governance, public accountability and transparency have a significant impact on how well an organisation meets its aims and objectives.

We carried out several audit reviews in 2015/16 covering governance in specific service areas. In light of the significant sums of money for which the Council has responsibility in its role as the AB, we also carried out a number of governance reviews relating to the discharge of the Council's AB role.

As in previous years we also reviewed the process used to produce the AGS which forms part of the Council's accounts. Following discussions at the August EMCB CMT meeting regarding the robustness of the AGS process, we undertook a fundamental review to both strengthening and streamlining it for 2015/16.

## **14.4 MAIN FINANCIAL SYSTEMS**

14.4.1 The requirement to give an assurance on the adequacy and effectiveness of financial controls is a key responsibility for us. During 2015/16 we reviewed each of the main financial systems. A summary of our work in these areas is contained below.

The SAP system is used to provide General Ledger, Payroll, Accounts Payable (AP) and Accounts Receivable (AR). IT audit reviews identified that the SAP Governance, Risk and Control (GRC) module had been successfully updated and the tool was being embedded to ensure that security and division of duties are effectively managed. Whilst a SAP roadmap is in place, further alignment of the roadmap with business strategies would help in ensuring that the system continues to meet the needs of the Council.

#### 14.4.2 Financial Control / Ledger

From the work 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. We did identify some specific concerns where we felt that controls required strengthening, or where controls were not being applied consistently, including in the following areas of activity:

- Journal workflow and virement management.
- Management of control accounts.

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

The performance indicators for the payroll service have been met with 99.61% (as at 29/2/16) of staff being paid accurately and on time against a target of 99.5%. The amount of salary overpayments due to payroll errors is very low at 0.12% of the payments made and is less than last year.

The corporate payroll system is stable and functioning well. We carried out exception reporting using our data warehouse across the payroll records and supplemented this with limited transaction testing. This work identified minor anomalies which have been corrected by management.

We continued to find non-compliance and errors by employees and line managers in the use of People Solutions. In one directorate, the Directorate of Place, we identified a lack of consistency regarding managers and employees complying with the Managing Absence Policy, specifically there were failures to take prompt action and accurately record details on People Solutions. This is now being monitored by the Directorate Senior Management Team to ensure appropriate action is taken. Updating People Solution is key as greater reliance is being placed on managers and employees to use People Solutions for self service and query resolution in the Future Operating Model.

Failures to record absences or other events which affect pay (e.g. reduction in hours worked, accumulated long term sickness absence, maternity leave etc.) have given rise to 27 salary overpayments over £3,000, with a combined value of £207,391. The circumstances surrounding each overpayment have been investigated to verify that the payments were not fraudulent and appropriate management action has been taken.

#### 14.4.4 Accounts Payable (AP)

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

Based on work carried out during the year, we have concluded that arrangements are in place to ensure creditors are being paid accurately and in a timely manner. As at 29/2/16, 98.76% of invoices by volume have been paid to terms or within 30 days of receipt by AP. This is well above the target of 95%. An examination of master file data did identify some areas for improvement, our recommendations are being actioned. Work has also been undertaken on Customer First master data used for Adult and Children's social care payments. The use of the Supplier Portal was examined and further enhancements are planned to allow suppliers to submit invoices electronically more easily, which should reduce processing time and improve efficiency.

#### 14.4.5 Procurement

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

- Contract management remains an area where we have continued to identify weaknesses across the Council. The Contract Management Toolkit is being used by staff within CPS, but there is still considerable work to do to encourage its use more widely. CPS has an important role to play in this and is undertaking awareness training. As more services are delivered externally, the need for robust contract management increases.
- Compliance failures in relation to the procedure introduced in September 2013, to regulate the engagement of 'off payroll' individuals. Revised procedures have now been put in place. Compliance with these new procedures will be subject to audit review.
- We identified some non-compliance with the Public Contract Regulations 2015, and tendering exercises where the quality of panel members' evaluation documents was poor. The Contract Management Toolkit now provides guidance on ensure compliance with the regulations.
- Business Charter for Social Responsibility Action Plans were not always in place, or not being reviewed as part of contract review meetings.

- There is no contract in place for major adaptation work on non-council properties which are funded through the Disabled Living Grant. This has resulted in a backlog of work. Plans are in place to clear this backlog and establish a contract

#### 14.4.6 Accounts Receivable (AR)

Our work this year has been a combination of audit reviews of processes and data analysis. We established that controls are adequate in managing risks within this area of activity. As at 29/2/16, 95.94% of manual invoices had been raised within 10 days of the service being provided against a target of 90% - this is an improvement on the 91.84% achieved as at 31/3/15. We also found that the SSC is effective in monitoring sundry debt recovery.

From our data analytical work we identified potential issues and opportunities for efficiency gains in the issuing of invoices to customers by directorates. Examples are duplicate master data and inefficiencies within some income collection methods e.g. high numbers of low value invoices being raised, and other areas where automation is not working fully to pull through debtor's addresses from the feeder file into Voyager.

#### 14.4.7 Revenues, Benefits and Rents

##### Council Tax & Business Rates

As at 29/2/16, Council Tax (CT) in-year collection was at 91.27%, and the in-year collection rate for Business Rates was 94.38%. Our data analytical work in this area identified some delays in progressing CT and NDR debt through the debt recovery process, and a high number of different codes / stages which could be streamlined to make managing this process easier and more efficient.

A revised way of looking at customer debt is being worked on by Revenues and Service Birmingham, with the aim of identifying debt per customer rather than debt per year. CT Single Person Discounts remain a problematical area, with pro-active anti-fraud work identifying potentially fraudulent claims.

A proactive piece of work has also been done to assess how well new business developments / changes to existing business premises are identified, in order to maximise NDR income due to the Council.

##### Benefits Service

This area is subject to major change with welfare reform remaining high on the Government's agenda. Our work has shown that the service is performing well and is effectively managed. We have been working closely with the business areas on specific projects such as Risk Based

Verification and the introduction of Universal Credit. The recovery of Housing Benefit overpayments has also been reviewed and recommendations made to improve the effectiveness of cross-directorate processes.

## Rents

As at 29/2/16, Rents had collected 98.15% of in-year rents, this is 3.45% above target and is 0.22% higher than for the same period last year. A new escalation policy has been put in place. We also reviewed the Introductory Tenancy processes to ensure early intervention takes place where rent accounts move into arrears.

## **14.5 INFORMATION TECHNOLOGY (IT) / INFORMATION GOVERNANCE ISSUES**

The Council, in common with other public sector bodies, is striving to secure service efficiencies through the use of technology and draw 'insight' from information held. This introduces new challenges and risks that need to be managed.

Our work during the year 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 Service Birmingham.

### Service Birmingham

During the year a number of service incidents were encountered with the processing of bulk print jobs and BACS payment files. Service Birmingham responded quickly to these incidents in order to minimise disruption. Our work in this area found that the overall number of incidents encountered was very low in relation to the size of the service and that robust incident management procedures were in place. Recommendations were made to further enhance change control procedure to help avoid future incidents.

The gateways into the network continue to be well protected by appropriately configured antivirus / malware software.

### Council

Implementation of IT standards is inconsistent across the Council. This inconsistency can mainly be attributed to a general lack of awareness and understanding of the standards. A programme to revise, consolidate and raise awareness of the standards is now underway.

This lack of awareness has resulted in concerns being raised over the security and processing of sensitive information.

Our information governance reviews identified:

- Data Protection Subject Access Requests are now being responded to within statutory timescales. The Information Commissioner has now stopped monitor the Council's improvement action plan;
- whilst the control of 3rd parties access to our systems remains a concern, overall security has improved and data processing agreements are being put in place;
- a revised information security e-learning training package is being designed to raise information security awareness; and
- concerns remain over the effective management of system users and their access privileges. During this period of rapid change it is essential that system access is effectively controlled.

Council / Service Birmingham

Our work identified a need to strengthen the governance and reporting arrangements surrounding the management of IT projects. Post implementation reviews of major projects have highlighted the need for a more effective lessons learnt process.

The level of 'quarantined' computers remains a concern, in particular old and obsolete computers are not disposed of on a timely basis, and inactive assets are not updated with the latest security patches. Quarantined computers are now being scrutinised by directorate Procurement and ICT operational groups' (PICtog).

An overarching cyber security policy is now in place, although, user knowledge and awareness of potential cyber threats is still required. This will be delivered through the e-learning package that is currently under development.

ICT Governance reviews identified:

- the lack of an agreed future operating model for the Intelligent Client Function (ICF) has led to a loss of strategic direction and positioning within the Council; and
- there is currently no formal mechanism for implementing the vision for a digital strategy and a comprehensive benefits realisation plan.

The ICT Strategy and Future Operating Model currently under development are looking to address these issues.

## APPENDIX B

### Reports Issued During 2015/16

#### Audit Reviews (105 Reports):

Title	Risk Rating Council
Rents - Effectiveness of Processes and Controls - Employees in Arrears	Low
Grants Review - Capital Grants	Low
Antivirus - Malware	Low
CP1 Payments	Low
Procurement - Housing Repairs - Pre-contract	Low
Accounts Payable Level 1 & Level 2 Invoice Queries	Low
NNDR - Business Rates Appeals	Low
Appointee and Receivership	Low
Blue Badge Scheme	Low
Non Invoiced Income	Low
Accounts Receivable Cashiers Function	Low
Ethics	Low
On Line Payments	Low
Accounting for HRA property Assets Report	Low
Accounts Payable Summary Report	Low
Corporate Payroll SAP testing	Low
Accounts Recievable Annual Summary Report 2014-15	Low
Information Governance Data Classification	Low
Web Page Security	Low
The Advanced Manufacturing & Supply Chain Initiative (AMSCI)	Low
Accounts Payable (AP) - Supplier Portal	Low
Rents - Effectiveness of Processes and Controls - Visits	Low
Rents - Effectiveness of Processes and Controls - Introductory Tenancies	Low
SAP Managed Service	Low
Blue Coat	Low
PCI Compliance - Green Waste Payments Team	Low
Section 106 Agreements	Low
Compliance with new legislation - Non HR	Low
Corporate Payroll Exception reports - Final report	Low
Integrity of drug PI	Low
Sophos Local Self Help	Low
Acivico Contract Monitoring - Statutory Testing	Low
CPS Rebates	Low
IT Standards	Low
Non Purchase Orders	Low
Customer Services Contract Centre Dashboard	Low
Council Tax - Effectiveness of Processes & Controls	Low
Management of Voids Service Redesign	Low
POPI	Low
Benefits Service - Risk Based Verification	Low
NNDR - Effectiveness of processes and controls	Low
Accounts Receivable - Trading Activities	Low
Grove School Financial Health Check	Low



<b>Title</b>	<b>Risk Rating Council</b>
Accounts Payable (AP) - Payment Methods	Low
Accounts Receivable - Master Data/Roles & Usage	Low
BACS	Low
Capita Document & Information Services	Low
Service Incidents	Low
Schools unannounced Cash Counts	Low
Third Party Information Security	Low
Highways and Infrastructure Works - Open Book Accounting	Low
Social letting agency	Low
Schools Financial Value standard	Low
Young Persons Hub Service (Homeless - Temporary Accommodation)	Medium
Accountable Body Pre-Evaluation Process	Medium
Corporate Payroll Summary Report 2014-15	Medium
Revenues Rent Benefits Annual Summary Report 2014-15	Medium
Personnel Management	Medium
Agile Working	Medium
Benefits Service - Housing Benefit Overpayment Recovery	Medium
Provision of Adult Substance Misuse Treatment and Recovery	Medium
Acivico Contract Monitoring - Quarterly Advance Payments	Medium
Assessment and Support Planning 2016	Medium
Revaluations	Medium
Online Service Delivery	Medium
Corporate Payroll - Overtime	Medium
Accountable Body - Post Project Evaluation Process	Medium
Integrated Support Plans	Medium
Children's Direct Payments	Medium
Children with Complex Needs - Complaints Procedures	Medium
Adults Direct payments	Medium
Enforcement - Litter and Fly Tipping	Medium
HMO Licensing	Medium
Asset Management Report latest	Medium
Review of digital personnel Files	Medium
IT Project Governance	Medium
Contracts and Procurement Summary Report	Medium
Caldicott Guardian	Medium
Council Tax and NNDR Debt Management	Medium
Non HRA Property Transactions	Medium
SAP GRC	Medium
Financial Control Review	Medium
Rent Service - Rent Arrears Debt Management Final report	Medium
Contract Management Methodology	Medium
S175 Safeguarding Return	Medium
School Governance 2015	Medium
Data Sharing	Medium
Management of Voids	Medium
Green Bridge Supply Chain Programme Governance Arrangements	Medium
The Strategy for Supporting Carers	Medium
Veolia - Contract Management	Medium
SAP Roadmap	Medium
Cohort IT Security	Medium
Information Governance - Adoption and Fostering	Medium

<b>Title</b>	<b>Risk Rating Council</b>
Compliance Review - Managing Absence	Medium
Procurement - Contracts Business Charter for Social Responsibility	Medium
Provision of Adult Substance and Misuse Treatment and Recovery Services - Service Delivery Directorate for People	Medium
Provision of Full Time Education to Children in Receipt of Alternative Provision	Medium
IT Service Management	Medium
Tendering - Public Contracts Regulations	Medium
Safeguarding Disclosure and Barring Checks (DBS)	Medium
St Banabas School Financial Health Check	Medium
Fleet Services - Review of Management Arrangements	Medium
Personal Education Plans	Medium
Deprivation of Liberty Standards	High

### **Follow Up Reports (35 Reports):**

<b>Title</b>	<b>Risk Rating Council</b>
Supply Chain Risk Follow up	Low
Housing Allocations Follow Up	Low
Golf Courses 2nd Follow Up	Low
Flood Management Follow Up	Low
Multi Agency Safeguarding Hub (MASH) Follow Up	Low
Bonds BPS Follow Up	Low
Petty Cash Follow Up	Low
Elective Home Education Follow Up	Low
Spydus Follow up	Low
Management of Capital Transactions Follow Up	Low
HMO Licensing Follow Up	Low
Accounting for VAT Follow Up	Low
Overtime Follow Up	Low
Absences Follow up	Medium
Licensing Follow up - Hemming / Westminster and Taxi Licensing	Medium
Accountable Body Corporate Arrangements Follow Up	Medium
Third Party Service Provision 2nd Follow Up	Medium
Specialist Care Services Day Centres Report Follow Up	Medium
Subject Access Requests Follow Up	Medium
Data Changes Investigation Customer Relationship Management System (CRM) 2nd Follow Up	Medium
Birmingham Contract Phase 2 Follow Up	Medium
Young Adults Re-provisioning Follow Up	Medium
Dealing with Excluded Children Follow Up	Medium
Maintenance of RAM Follow Up	Medium
IT Asset Management Follow Up	Medium
Adult Education Follow Up	Medium
Procurement Contracts - Engagement of Individuals Follow Up	Medium
Corporate Parenting Follow Up	Medium
Tree Maintenance Follow Up	Medium
Heritage Asset Follow Up	Medium

<b>Title</b>	<b>Risk Rating Council</b>
Subject Access Requests Follow Up	Medium
TA Debt Recovery 2nd Follow Up	Medium
Enforcement Litter and Fly Tipping Follow Up	Medium
Tenant Management Organisation Follow Up	Medium
4 Towers Tenant Management Organisation Follow Up	Medium

**Proactive / Management Reviews (7 Reports):**

<b>Title</b>	<b>Risk Rating Council</b>
Management of Voids - TMO	N/A
Environmental Health	N/A
Acivico Deferred Services Governance Review	N/A
Multi-agency Safeguarding Hub	N/A
Direct Payments - Proactive Exercise	N/A
Hardship Grants	N/A
Final Planning Permission Breach - Longmoor	N/A

**Investigation Reports (24 Reports)**

**School Visits (27 Reports)**

**Internal Audit Charter 2016/17****1. Introduction**

- 1.1 This charter sets out Birmingham Audits (BAs) purpose, authority and responsibilities; establishes BAs position within the organisation, including reporting relationships with the 'board'; covers the arrangements for appropriate resourcing; defines the scope of internal audit activities and role of internal audit in any fraud-related work; and includes arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities. It also sets out the objectives, framework and services delivered by BA (which are in accordance with the mandatory PSIAS). The detailed actions to deliver the charter are contained within the BA Business Plan.

**2. Purpose, Authority & Responsibilities**

- 2.1 BAs primary purpose is to provide independent and objective assurance to the Council on the control environment (risk management, internal control and governance) by evaluating its effectiveness in achieving the organisations objectives.
- 2.2 In accordance with section 12 of the Financial Regulations the Assistant Director, Audit & Risk Management (AD ARM) on the authority of the Director of Finance shall have authority to:-
- enter any Council premises or land at all reasonable times.
  - have access to all records, documents, data and correspondence relating to all transactions of the City Council, or unofficial funds operated by an employee as part of their duties.
  - require any employee of the City Council to provide such explanations, information or any other assistance necessary concerning any matter under audit examination.
  - require any employee of the Council to produce cash, stores or any other property under his / her control, belonging to the Council or held as part of the employee's duties.

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

- 2.3 BAs responsibilities include looking at how risk management, control, governance processes, and other resources are managed, and working with managers to add value, and improve the security, efficiency and effectiveness of their processes.

2.4 Individual auditors are responsible for ensuring that they operate with due professional care. This means that BA staff will:

- be fair and not allow prejudice or bias to override objectivity;
- declare any interests that could potentially lead to conflict;
- sign a confidentiality statement;
- not accept any gifts, inducements, or other benefits from employees, clients, suppliers or other third parties;
- use all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base their conclusions;
- be alert to the possibility of intentional wrongdoing, errors and omissions, inefficiency, waste, lack of economy, ineffectiveness, failure to comply with management policy, and conflicts of interest;
- have sufficient knowledge to identify indicators that fraud may have been committed;
- disclose all material facts known to them which if not disclosed could distort their reports or conceal unlawful practice subject to confidentiality requirements;
- disclose in reports any non-compliance with these standards; and not use information that they obtain in the course of their duties for personal benefit or gain.

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

3.1 BA will remain independent of the areas audited to ensure that auditors perform their duties impartially, providing effective professional judgements and recommendations. BA will not have any operational responsibilities.

3.2 Subject to any statutory responsibilities and overriding instructions of the Council, accountability for the response to advice, guidance and recommendations made by BA lies with management. Management can either accept or implement the advice and recommendations or reject it. Any advice, guidance or recommendations made by BA will not prejudice the right to review the relevant policies, procedures, controls and operations at a later date.

3.3 The AD ARM will report the results of audit work in accordance with the protocol for working with BA to senior managers and the board.

Note: The term 'senior managers and the board', can refer to one or all of the following: Audit Committee, Chief Executive, Assistant Chief Executive or Strategic Director Finance & Legal.

#### **4. Resourcing**

- 4.1 The service will be delivered to professional standards by appropriately qualified and skilled staff. BA has achieved the ISO27001:2013 Information Security Standard. The Information Security Standard is subject to regular external review.
- 4.2 During 2016/17 we will seek more efficient and effective ways to deliver the audit service, provide assurance to Members and help improve value for money and quality of Council services. The data warehouse will continue to be used to support our assurance work and provide intelligence in respect of allegations of non-benefit related fraud referrals or data anomalies identified, and to carry out exception reporting, to identify samples and review data quality.
- 4.3 We will work with private sector partners as necessary to ensure we have the right skills and resources to deliver a quality driven professional service to the Council.
- 4.4 We will work in partnership with other inspection bodies to ensure that we get the maximum audit coverage from the resources invested; taking assurance from each others work where appropriate.
- 4.5 If the AD ARM or those charged with governance consider that the adequacy and sufficiency of internal audit resources or the terms of reference in any way limit the scope of BA, or prejudice the ability of BA to deliver a service consistent with the definition of Internal Audit, they will advise the Council accordingly.

#### **5. Scope**

- 5.1 The scope of the internal audit function will embrace the internal control system of BCC. It covers all financial and non-financial related activities of the Council at all levels of its structure.
- 5.2 The internal control system is defined as including the whole network of systems and controls established by management to ensure that the objectives are met. It includes both financial and other controls for ensuring that corporate governance arrangements are satisfactory and best value is achieved. In determining where effort should be concentrated, the AD ARM will take account of the Council's assurance and monitoring mechanisms, including risk management arrangements, for achieving its objectives.
- 5.3 BA will consider the results of the Council's risk management processes. Where the results indicate adequate action has already been undertaken to manage the risks / opportunities BA will take this into account. Where the results indicate that insufficient work has been done then BA may undertake a separate review.

- 5.4 The scope of audit work extends to services provided through partnership arrangements. The AD ARM will decide, in consultation with all parties, whether BA conducts the work to derive the required assurance or rely on the assurances provided by other auditors. Where necessary, the AD ARM will agree appropriate access rights to obtain the necessary assurances.
- 5.5 BA will not undertake tasks, which are likely to compromise its independence, internal control functions or certification processes.
- 5.6 BA will participate and contribute to Council and Directorate policy development as required through attendance at Managers Network events, and working groups.
- 5.7 Other Work

Where appropriate resources exist BA will make provision within the plan for:

- The review of key systems or key services provided by the Council on behalf of other organisations.
- The review of key systems or services provided by others on behalf of the Council. In order to achieve this BA will require access to partner records, systems and staff. This access should form part of any partnership contract between BCC and the partner.

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

## 5.8 Fraud & Corruption

Section 14 of the Financial Regulations states the following:

- The responsibility for prevention and detection of fraud rests with all employees.
- Each Strategic Director must ensure that the Director of Finance, AD, ARM and if applicable, the Monitoring Officer, is notified immediately whenever a matter arises which involves, or is thought to involve, any financial irregularities, fraud and corruption.
- The Director of Finance is responsible for deciding on the action to be taken to investigate suspected financial irregularities, including referring the matter to the Police.
- If there are any suspicions that a Member may be involved / or associated either directly or indirectly in an incident that may require investigation, then the Strategic Director must report this to the Director of Finance, who may refer the matter to the appropriate Cabinet Member or Committee.
- Each Strategic Director must implement the Anti-Fraud Strategy, the Criminal Acts Procedure and the Confidential Reporting

(Whistleblowing) Code and Public Interest Disclosure Act 1998.

BA will assist managers to minimise the scope for fraud by evaluating the Council's systems of internal financial control and reporting thereon. Where irregularities are suspected, BA will, in appropriate cases, undertake an investigation and report to management or will promptly provide advice and guidance to assist managers with their investigation. All investigations undertaken by BA will adhere to all Council policies.

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

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

## **7. The Audit Committee**

- 7.1 Our support to the Audit Committee helps to demonstrate the highest standards of corporate governance, public accountability and transparency in the Council's business. We will maintain an effective working relationship with the Audit Committee, this will include:
- their approval of the internal audit charter and audit plan, and monitoring of progress against them.
  - the provision of training and technical support to keep Members informed of relevant legislation, good practice and governance issues.
  - access to all reports. Those considered to be of the highest risk will be highlighted and brought to their attention.
  - performance management information will be provided.
- 7.2 We will attend the committee meetings, and contribute to the agenda.
- 7.3 We will participate in the committee's review of its own remit and effectiveness, and ensure that it receives, and understands, documents that describe how Internal Audit will fulfil its objectives.
- 7.4 Our progress reports will include the outcomes of internal audit work in sufficient detail to allow the committee to understand what assurance it can take from that work, and / or what unresolved risks or issues it needs to address.



- 7.5 An annual internal audit report will be produced and include an overall opinion on the control environment, the extent to which the audit plan has been achieved, and a summary of any unresolved issues.

## **8. Business Plan Objectives - 2016/17**

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

## **9. Statutory Requirements**

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

### **Legal:**

- Accounts and Audit Regulations 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
- DWP Performance Standards Framework

- Information Security - BS EN ISO27001:2013
- 9.3 BA 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 Director of Legal & Democratic Services (& Monitoring Officer) are required to sign a formal corporate assurance statement (known as the Annual Governance Statement (AGS)) on the effectiveness of the Council's governance arrangements 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
  - 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 2016/17 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.
  - 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 years 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 programme.

- All of the risks contained within the Corporate Risk Register are included within the BCC Assurance Map, which is updated prior to producing the audit plan, and some or all of these will be audited on the basis of their likelihood and impact. The focus of the audits will be the testing of the systems, controls and action plans put in place by the nominated risk owner to mitigate the risk. If other significant risks / opportunities are identified either through audit work, new / changing legislation or other change mechanisms they may, subject to resource availability be added to the audit plan.
- Following discussions with the External Auditors we agreed that each of the systems they designate as 'main financial systems' would feature in the audit plan, unless otherwise directed.
- We will assess ourselves against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. Prevention and detection of fraud remains a priority for the Council.
- We will continue to develop our approach to systems audit work to put more emphasis on reducing the risk of fraud. Counter fraud activity will include both reactive and proactive fraud work and providing further assistance to officers to better manage the risk of fraud through prevention, detection and deterrence. This will include work in relation to the NFI 2015.
- Follow up audits will be undertaken in accordance with the agreed policy.

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

**Proposed Internal Audit Plan 2016/17**

**APPENDIX D**

	Days	Days
<b>Financial Systems (including computer audits where appropriate)</b>		
Main Accounting	70	
Housing Rents	40	
Accounts Payable	75	
Accounts Receivable	80	
Carefirst	30	
Payroll/HR	75	
Benefits	80	
Revenue (Council Tax and NNDR)	80	
Asset Management	70	
Grants and Contributions	15	
Cash Income	15	
Procurement, Contract Audit and PFI	140	
IT Related Core Systems Work	90	<b>860</b>
<b>Business Controls Assurance</b>		
Work in progress b/fwd from 2015/16	130	
IT Related Non Financial Systems Work	330	
Data Analysis	250	
Corporate Risk Management Facilitation	75	
Contingency	50	
Acivico	40	<b>875</b>
<b>People</b>		
Allocations	20	
Assessment & Support Planning	25	
Better Care Fund	25	
Children's Services (Education)	60	
Children's Services (including Social Care)	60	
Direct Payments	40	
Homeless - Temporary Accommodation	20	
Individual Budgets	20	
People Commissioning	40	
Prevention Agenda	20	
Public Health	40	
Safeguarding & Development - BCSB	50	
Safeguarding Corporate Overview	50	
Troubled Families Programme	20	
Careline	15	
Adoption	20	
Fostering	20	
		<b>545</b>
<b>Place</b>		

	Days	Days
Accountable Body	50	
Birmingham Resilience	20	
Equality, Community Safety & Cohesion	25	
Highways Management	30	
Housing Repairs	25	
Housing Visiting Programme	15	
Independent Living	20	
Leisure Facilities - Externally Operated	20	
Licensing	20	
Museums Management Arrangements	15	
Registration Service	15	
Traffic Management - Policy & Delivery	15	
Waste Management	30	
Wellbeing Service	20	
		<b>320</b>
<b>Economy &amp; Corporate Resources</b>		
Annual Audit Letter	5	
Ethics	5	
Governance Allocation	20	
New Service Delivery Vehicles	10	
Project Management	40	
Risk Management - Contribution to Improvement Agenda	15	
Treasury Management		
Workforce Planning	20	
	20	
		<b>135</b>
<b>Investigations</b>		
Reactive investigations	640	
Proactive work / Fraud Awareness	200	<b>840</b>
<b>Schools</b>		
Management of School Balances	20	
Themed Work	100	
Schools Consortium	20	
School Deficits	20	
School Facilities Management	15	
Schools Income & Expenditure	20	
Visits	950	
		<b>1145</b>
<b>Follow Up Work</b>	<b>225</b>	
<b>Ad Hoc Work</b>	<b>273</b>	
<b>Planning and Reporting</b>	<b>180</b>	
<b>City Initiatives</b>	<b>45</b>	
<b>TOTAL</b>		<b>5443</b>

## BIRMINGHAM CITY COUNCIL

### PUBLIC REPORT

<b>Report to:</b>	<b>The Audit Committee</b>
<b>Report of:</b>	<b>Strategic Director Finance &amp; Legal</b>
<b>Date of Meeting:</b>	<b>21<sup>st</sup> June 2016</b>
<b>Subject:</b>	<b>Annual Review of the Effectiveness of the Systems of Internal Audit</b>
<b>Wards Affected:</b>	<b>All</b>
<b>1. Purpose of Report</b>	
<p>1.1 The purpose of this report is to assist Members in meeting the requirement of the Accounts and Audit Regulations 2015 for the Council to conduct an annual review of the effectiveness of its systems of internal audit, and for a committee of the Council to consider the findings from that review. The review outlined in this report covers the 2015/16 financial year.</p>	
<b>2. Recommendations</b>	
<p>2.1 Members are asked to consider the findings from the review detailed in this report and the conclusion reached that the systems of internal audit are adequate and effective and meet their objectives.</p>	

### **3. BACKGROUND**

- 3.1 It is a requirement of the Accounts and Audit Regulations 2015 that the Council conducts an annual review of the effectiveness of its systems of internal audit, and that a committee of the Council considers the findings from that review.
- 3.2 At the meeting of the Audit Committee held on 19<sup>th</sup> December 2006, Members agreed a mechanism for discharging this responsibility. It was agreed that a holistic approach would be adopted, and that the former Director of Finance (now the Strategic Director Finance & Legal), would bring together and consider, in a report for the committee, a number of measures that are already in place.
- 3.3 These measures include:
- The view of the Assistant Director, Audit & Risk Management on the adequacy and effectiveness of the internal audit service and a review of quality, performance and customer feedback on the internal audit service as detailed in the Birmingham Audit Annual Report.
  - The view of the Council's External Auditors.
  - The day to day overview of the service I have as the line manager for the Assistant Director, Audit & Risk Management.
  - The 'oversight' of the Internal Audit function from the Audit Committee as they consider the development and delivery of the audit plan and the quality of the audit work that is delivered.

### **4. THE REVIEW**

- 4.1 The review outlined in this report covers the financial year 2015/16.
- 4.2 The purpose, authority and responsibilities of Birmingham Audit are set out in the Internal Audit Charter. The 2015/16 charter was approved by the Audit Committee.
- 4.3 Birmingham Audit must be independent and report at a level within the Council that enables it to fulfil its responsibilities. This organisational independence is effectively achieved in that the Assistant Director of Audit and Risk Management, reports to the Strategic Director Finance and Legal on a day to day management basis and on a functional basis to the Audit Committee.
- 4.4 The Birmingham Audit Annual Report 2015/16 is being considered elsewhere on the agenda for this meeting. It shows that the target for the delivery of the internal audit plan was met with 97% of audits completed - against a target of 95%. It also shows that the service retained its ISO9001:2008 quality assurance accreditation and its ISO27001:2013 information security accreditation and continued to receive positive feedback from its customers.



However, the service has now ceased the formal ISO9001 accreditation. Quality processes have now been incorporated into the Information Security Manual, and the ISO27001 accreditation. This has reduced costs and the administration time associated with maintaining and updating two separate manuals whilst maintaining robust processes.

- 4.5 The annual audit plan is prepared using a risk based methodology, and in such a way that enables the provision of an independent opinion on the adequacy and effectiveness of the systems of internal control in place (comprising risk management, corporate governance and financial control). A careful balance has to be struck to achieve the optimum use of resources available and to ensure that the control environment is adequately covered. Potential areas for audit are identified from various sources including corporate and directorate risk registers and the professional knowledge auditors have of the Council's services, objectives and the risks that may prevent them from being achieved. All potential audit areas are then assessed using a risking model to compile the annual plan. As part of this process the views of other key stakeholders including senior officers throughout the organisation and those of Members are taken into account.

This methodology for compiling the plan has regard for the adequacy of the overall assurance framework. Internal Audit provides a part of the assurance but other internal and external inspections also contribute to the assessment, for example OfSted and External Audit.

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

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

- 4.6 In the past External Audit undertook a detailed triennial review of Internal Audit. The last of these was undertaken in 2007/08 with an updated assessment being undertaken in 2009/10. Since then there has been no detailed / formal assessment of Internal Audit by the External Auditors. However, there continues to be regular liaison between Internal Audit and their External Audit colleagues. Plans are shared to ensure the best overall use of audit resources and to avoid duplication of effort. The External Auditor continues to draw on relevant aspects of Internal Audit's work. Within the External Auditor's report outlining their 2015/16 audit plan, considered at the March Audit Committee meeting, they comment:

*'Our review of internal audit's work on key financial systems up to January 2016 has not identified any weaknesses which impact on our audit approach'.*

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

During 2015/16 the service undertook a full self-assessment to assess their level of compliance with the standards. This identified that their practices were generally in compliance with the PSIAS, and only minor changes were necessary to ensure all requirements were met. The changes have / are in the process of being actioned.

An external assessment against the PSIAS is to be undertaken by Core City peers during the second quarter of 2016/17. The findings from this independent assessment will be reported to the Audit Committee.

- 4.8 Internal Audit has presented reports to the Audit Committee throughout the year. Members of the Audit Committee have also been provided with lists of all internal audit reports issued on a monthly basis and under the agreed protocol are able to request copies of reports. This information has been used to monitor progress against the audit plan and to challenge performance in respect of reducing risk in those areas where audit reports had been given the highest risk rating.
- 4.9 Based on the above, and on my own knowledge of the service through day to day line management of the current Acting Assistant Director, Audit & Risk Management, I am satisfied that the Internal Audit Service is adequate and effective and meets its objectives.

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

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

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

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

## **7. Compliance Issues**

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

## **8. Recommendations**

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

.....  
Jon Warlow  
Strategic Director, Finance & Legal

**Contact officer:** Jon Warlow, Strategic Director, Finance & Legal  
**Telephone No:** 303 2950  
**e-mail address:** [Jon.Warlow@birmingham.gov.uk](mailto:Jon.Warlow@birmingham.gov.uk)



# **BIRMINGHAM CITY COUNCIL**

## **PUBLIC REPORT**

**Report to: AUDIT COMMITTEE**

**Report of: Strategic Director – Finance and Legal**

**Date of Meeting: 21<sup>st</sup> June 2016**

**Subject: 2015/16 ANNUAL GOVERNANCE STATEMENT**

**Wards Affected: All**

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

The Annual Governance Statement (AGS) forms part of the Statement of Accounts for 2015/16 and reports on the Council's internal control regime.

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

### **2. Recommendations**

2.1. To approve the Annual Governance Statement, which will be included in the 2015/16 Statement of Accounts.

2.2. To agree that the arrangements for the management of the items included in Section 6 will be reported to the Audit Committee in November 2016 and March 2017.

### **3. Background**

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

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

- 4.1 The AGS is a requirement of The Accounts and Audit Regulations 2015, regulation 6 (1)(b) and meets the corporate governance best practice recommendations. There are no direct resource implications arising from this report.

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

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

### **6. Compliance Issues**

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

### **7. Recommendations**

- 7.1 To approve the Annual Governance Statement, that will be included in the 2015/16 Statement of Accounts.
- 7.2 To agree that the arrangements for the management of the items included in Section 6 will be reported to the Audit Committee in November 2016 and March 2017.

.....  
**Jon Warlow – Strategic Director – Finance and Legal**

**Contact officer:** Sarah Dunlavey

**Telephone No:** 0121 675 8714

**e-mail address:** [sarah\\_dunlavey@birmingham.gov.uk](mailto:sarah_dunlavey@birmingham.gov.uk)

## **Annual Governance Statement 2015/16**

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

- 1.1. Birmingham City Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency, and effectiveness.
- 1.2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and including arrangements for the management of risk.
- 1.3. The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is available as part of the Council's Constitution on the website. This statement explains how the Council has complied with the code and also meets the requirements of *The Accounts and Audit Regulations 2015*, regulation 6 (1)(b) which requires all relevant bodies to prepare an annual governance statement (AGS).

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

- 2.1. Governance is about the Council ensuring it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
- 2.2. The governance framework comprises the systems and processes, and culture and values by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.
- 2.3. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.4. The governance framework has been in place at the Council for the year ended 31 March 2016 and up to the date of approval of the Statement of Accounts.

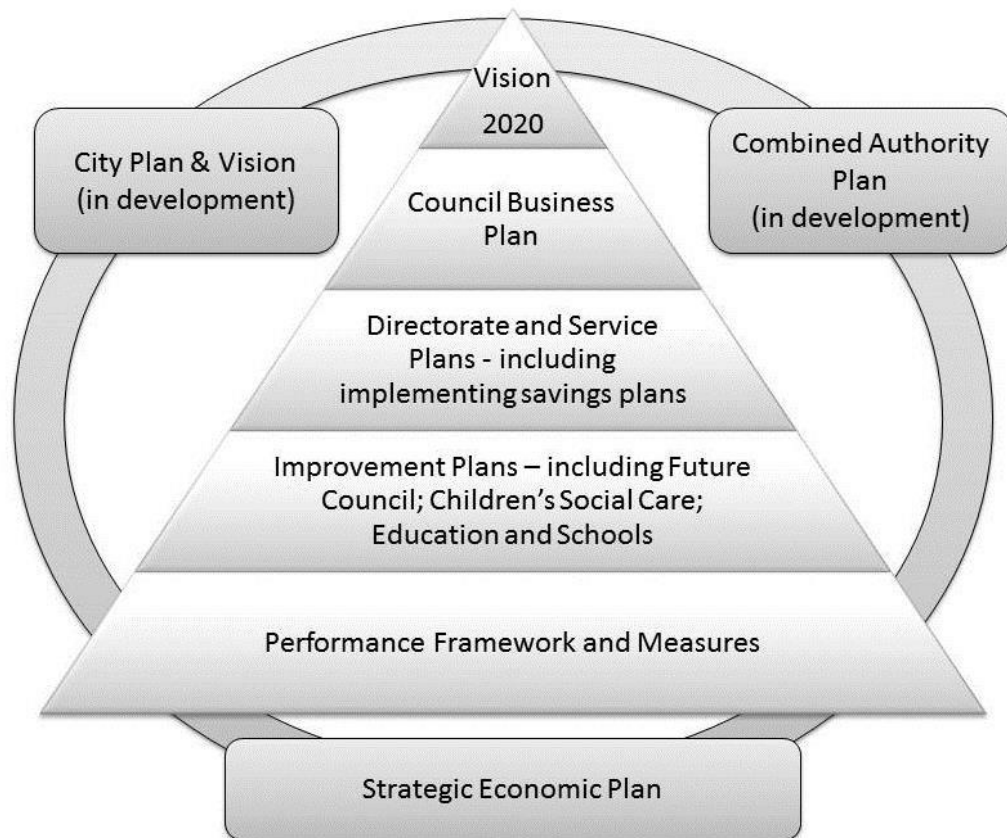


### 3. **The governance framework**

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

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

- 3.2. The Council Business Plan and Summary Budget 2016+ (The Plan) sets out the Council's vision and priorities in terms of the Council's contribution to strategic outcomes. The Plan is updated each year and is available on the Council's web-site.
- 3.3. The Plan articulates the strategic direction for the Council with a clear set of corporate priorities. These priorities have been informed by extensive consultation with the public. Progress against these priorities is monitored through a set of Council Business Plan measures, which have been formally agreed by Cabinet following discussion with Members. Regular monitoring and quarterly reporting against these measures ensures that shortfalls in performance are identified at an early stage and effective action to bring performance in line with targets is undertaken.
- 3.4. In turn, the corporate priorities are supported by more detailed Directorate and Service Plans which are also regularly monitored and reviewed.
- 3.5. The Council ensures the economical, effective and efficient use of resources, and secures continuous improvement in the way in which its functions are exercised, by having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty. Achievement of value for money is central to the Plan and the Council's long term financial strategy.
- 3.6. The Council's planning framework is set in the context of the wider city leadership and governance, such as: the City Plan and Vision (in development); the Combined Authority Plan (in development) and the Strategic Economic Plan (developed by the local enterprise partnerships in conjunction with the West Midlands Combined Authority). This framework will be the vehicle by which the Council's vision 2020 will be implemented in conjunction with partners. It is set out in the diagram overleaf.



- 3.7. The above diagram shows the high level sequence to achieve the vision 2020, including: creating the Future Council through the Future Council Programme; the implementation of the improvement plans; the directorate/service plans and the performance framework through which the Council will monitor and evaluate.
- 3.8. The vision 2020 is based on the fundamental ideals of prosperity, fairness and democracy, and, within that, to have a strong economy; safety and opportunity for all children; a great future for young people; thriving local communities; a healthy and happy city, and a modern council
- 3.9. Due to the scale of funding reductions required and changing times in which the Council operates, there is recognition of a need for change in how the Council must work if it is to deliver the vision 2020. To address this, the Future Council Programme was set up during 2015 to deliver an integrated and strategic approach to managing the necessary changes. This has taken on board all the recommendations of the Kerslake review of corporate governance (published in December 2014), and the advice and support from the Birmingham Independent Improvement Panel (BIIP) set up in January 2015.
- 3.10. As part of the process for the BIIP to assess the Council’s progress, the Council was asked to undertake its own self-assessment structured on the major themes which underpinned its improvement plan. The ‘gap analysis’ set out what the Council had achieved so far, where further progress was needed, where the Council intended to be in six months’ time, key priorities to

focus on and the risks that the Council needed to be prepared to address. Measures were included which the Council will monitor against. In March 2016, the BIIP reported on the positive progress the Council had made in implementing the recommendations of the Kerslake Report and recommended stepping back from the intensive review process.

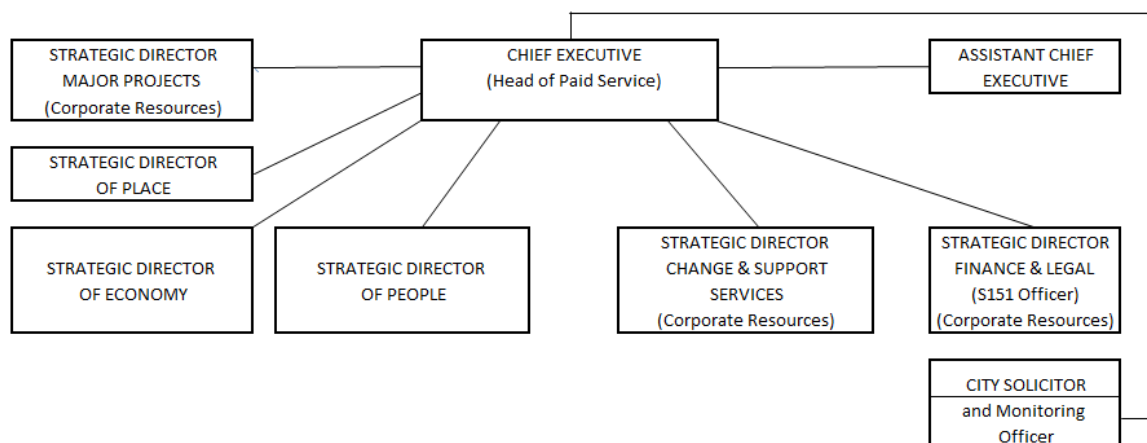
- 3.11. The Council has adopted a new approach by looking at how it can meet the needs of citizens, through providing services directly, and a renewed focus on how it can work with partners to achieve shared aims. The Council's role, with other civic and civil leaders, is to agree the vision for Birmingham and lead the city as a joint enterprise.
- 3.12. The proposals for change are divided into six key themes which aim to better meet citizens' needs, make substantial savings and improve the Council's performance. They are:
- **Prevent family breakdown** - seeking to support disadvantaged families through a range of interventions so their children can thrive.
  - **Maximise the independence of adults** - with Birmingham a city where getting older is a positive experience.
  - **Sustainable neighbourhoods** - creating an environment which is more sustainable, reduces costs and is better for the health and wellbeing of residents.
  - **Economic growth and jobs** - economic development and support for job creation, skills training and sustainable business growth can impact greatly on the prosperity and wellbeing of the city.
  - **Changes to the workforce** - our direct workforce will be smaller reflecting that outcomes and services will be delivered through new models where staff will not necessarily be directly employed by the Council.
  - **Council-wide** - we will continue to work more efficiently, redesigning our services so they are as lean as possible.
- 3.13. Profound change across local government is also underway. New city-regional leadership will be put in place through the West Midlands Combined Authority, with new powers devolved from central government to allow the Council to drive economic growth, investment and the reform of public services. The Council will become more strategic and much smaller. There will be new ways of delivering local services and new ways people can engage in their local community, such as the recently formed local council for Sutton Coldfield.
- 3.14. The Council has a strong public, third sector, and business engagement role. There is an established Partnership Toolkit setting out the governance and internal control arrangements which must be in place when the Council enters into partnership working. This includes arrangements for the roles of Members and Officers, and the implementation and monitoring of objectives and key targets. A programme of review against these requirements is led by Overview and Scrutiny.

- 3.15. Working with partners, the Council assumes a strategic role for the Greater Birmingham area, working with the Local Enterprise Partnership (LEP) to develop collaborative solutions to common problems, and facilitating coherent programmes with regional and international partners to deliver an economic strategy for the city and region. LEP projects follow the Council's governance processes, managed and monitored through a Project Delivery Board, with regular reporting to the LEP Board by the LEP Champion.

### Roles of Members and Officers

- 3.16. The Council's Constitution is codified into one document which is available on the intranet and the Council's website. The Constitution sets out the respective roles and responsibilities of the Cabinet and other Members and Officers and how these are put into practice. The Constitution is reviewed annually by The Monitoring Officer and any amendments are agreed at the Annual General Meeting. A revised and updated Constitution was agreed in May 2015. Further amendments were made during the year with the latest amendments made in March 2016. Any in-year changes are agreed by Cabinet and/or the Council Business Management Committee (CBMC).
- 3.17. The Council operates within four Directorates, Economy, Corporate Resources, People and Place.

### Management Structure



- 3.18. In November 2015, Councillor John Clancy was elected as the new Leader of the Labour Party and was formally confirmed as Leader of the Council on 1<sup>st</sup> December 2015.
- 3.19. The Council facilitates policy and decision-making via an Executive Structure. There were ten members of Cabinet for the 2015/16 financial year: The Leader, Deputy Leader and eight specific Cabinet Member Portfolios based on a thematic structure as follows:

- Cabinet Member – Children’s Services
- Cabinet Member – Commissioning, Contracting and Improvement
- Cabinet Member – Development, Transport and the Economy
- Cabinet Member – Sustainability
- Cabinet Member – Health and Social Care
- Cabinet Member – Neighbourhood Management and Homes
- Cabinet Member – Skills, Learning and Culture
- Cabinet Member – Inclusion and Community Safety.

3.20. On 24<sup>th</sup> May 2016 it was agreed at City Council that Cabinet would continue with ten members; The Leader and Deputy Leader and eight Cabinet Members with the following portfolios:

- Cabinet Member – Children, Families and Schools
- Cabinet Member – Value for money and Efficiency
- Cabinet Member – Transport and Roads
- Cabinet Member – Clean Streets, Recycling and Environment
- Cabinet Member – Health and Social Care
- Cabinet Member – Housing and Homes
- Cabinet Member – Jobs and Skills
- Cabinet Member – Transparency, Openness and Equality.

3.21. The CBMC has the responsibility for the planning and preparation of the agenda, papers and other arrangements for Council meetings and provides the forum for non-executive, non-scrutiny and non-regulatory matters. The Constitution sets out the terms of reference for each of the Committees and includes a schedule of matters reserved for decision by Full Council.

3.22. CBMC oversees the Council's relationship with the Independent Remuneration Panel which is chaired by an independent person. CBMC submits recommendations to the Council on the operation and membership of the Panel and amendments to the Councillors’ Allowances Scheme.

3.23. CBMC also discharges the Council’s functions in relation to parishes and parish councils.

3.24. The Council’s Audit Committee provides independent assurance to the Council on financial management, risk management and control, and the effectiveness of the arrangements the Council has for these matters. The role of the Audit Committee includes active involvement in review of financial systems and procedures, close liaison with external audit and responsibility for the approval of the Annual Accounts.

3.25. The Council’s Constitution sets out the responsibilities of both Members and senior managers. In particular the Council has identified four statutory posts as follows:-

Head of Paid Service - Chief Executive  
 Chief Finance Officer - Strategic Director - Finance and Legal  
 Monitoring Officer - City Solicitor  
 Scrutiny Officer - Head of Scrutiny Services

- 3.26. Protocols determining the roles of these officers and their relationship with Members and other Officers are set out. The Constitution also includes a Scheme of Delegation to Officers which sets out the powers of Strategic Directors.

#### Financial Management Arrangements

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

#### Role of the Chief Financial Officer:

- The Chief Finance Officer (CFO) is a key member of the Corporate Leadership Team (CLT), helping it to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest.
- The CFO is actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the Council's financial strategy.
- The CFO leads the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.
- To deliver these responsibilities, the Strategic Director - Finance and Legal as the Council's CFO:
  - leads and directs a finance function that is resourced to be fit for purpose; and
  - is professionally qualified and suitably experienced.

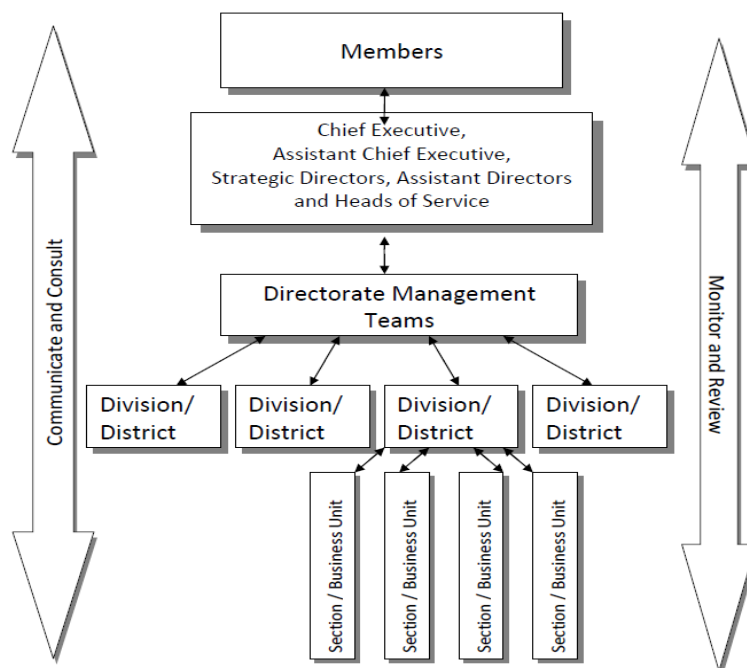
#### Values and standards of conduct and behaviour

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

#### Scrutiny, Accountability and Risk Management

- 3.29. The Overview & Scrutiny Committees cover all Cabinet Member portfolios and the Districts collectively. All Executive decisions can be called in for Scrutiny to ensure that they are soundly based and consistent with Council policy.

- 3.30. The Council has a procedure for handling complaints, compliments, and comments that monitors formal contact with members of the public. Complaints are actively tracked through the process and independently reviewed.
- 3.31. The Council ensures compliance with established policies, procedures, laws, and regulations - including risk management. For transparency, all reports to Cabinet, Cabinet Members and Districts are required to include governance information relating to: Council Policy, internal and external consultation, financial and legal implications and Public Sector Equalities Duty. All reports are required to be cleared by senior finance and legal officers.
- 3.32. Risk management continues to be embedded within the Council. The diagram overleaf illustrates how risk is managed:



- 3.33. The Risk Management Policy, Strategy and Methodology 2016 have been placed on the Council's website, and advice and support is provided as requested. Updated information regarding the management of the risks within the Council's Corporate Risk Register continues to be reported three times a year to the Audit Committee. Corporate risks are reviewed monthly by the Corporate Leadership Team. In addition business plans at directorate and divisional level include key risks.
- 3.34. Legal requirements and Council policy, together with guidance on their implementation, are set out in detail in the Policies, Standards, Procedures and Guidance database held on the Council's intranet for financial, Information Communications Technology and business procedures, and People Solutions for Human Resources policies and procedures. Directorates

maintain detailed delegations and guidance on specific legislative requirements which affect their service delivery. The Council has a strong Internal Audit function (Birmingham Audit) and well-established protocols for working with External Audit. The Council's external auditors have responsibilities under the Code of Audit Practice to review compliance with policies, procedures, laws and regulations within their remit.

### Capacity and Capability

- 3.35. The financial reductions facing the Council are impacting on workforce capacity. Having a flexible, skilled and mobile workforce will be critical to the Council effectively responding to increasing demand and reducing resources.
- 3.36. The Council has in place a strategy for facilitating the implementation of the savings proposals including managing significant workforce reductions through redundancy and potentially outsourcing. This includes an organisational design tool kit, training and online tools for managers along with a team of trained HR professionals to support the most complex projects. In addition there are number of work streams focused on continued performance priorities which include the improvement agenda in Children's Services, improving attendance across the Council and ensuring a robust framework for terms and conditions and pay are in place to eradicate any potential for further equal pay risks.
- 3.37. The Future Council sub programme, Forward: The Birmingham Way is working to provide a framework that will support the workforce to be the right people doing the right things in the right way.
- 3.38. In addition to the Members Development Programme, Councillors have access to e-learning through the Members portal on People Solutions and regularly kept up to date on training and development via the City Councillor bulletin circulated by e-mail. This gives detail of legislation, training opportunities and other issues of importance to Members. Regular monthly 'market places' and briefing sessions are held to keep Councillors up-to-date with Council Services or services provided by Partner Organisations. Group Offices encourage consideration, planning and undertaking of development and learning to become an effective and efficient elected representative.
- 3.39. The members' development programme in 2015/16 was delivered around four areas as outlined in the table below:

New Member Induction	On-going Member Development
<b>Aim: To give oversight of council processes and procedures to enable new members to get quickly up to speed with their role</b>	<b>Aim: to provide ongoing development opportunities for members related to current and potential future role and responsibilities</b>
<ul style="list-style-type: none"> <li>Understand role and responsibilities, the Council's values &amp; behaviours, define new development offer</li> <li>Managing casework, code of conduct and the constitution</li> <li>Who's who in Birmingham, customer intelligence</li> </ul>	<ul style="list-style-type: none"> <li>Skill development (e.g. running surgeries, media training and dealing with conflict) ; networks and external visits</li> <li>A survey poll of all members for targeted training</li> <li>Community leadership development (i.e. place</li> </ul>



and access to IT and council services	shaping, partnership, civic and civil)
<ul style="list-style-type: none"> <li>1-2-1's</li> </ul>	<ul style="list-style-type: none"> <li>Future roles and responsibilities - progressing to Chair/Vice Chair/Cabinet; how member roles are changing</li> </ul>
<b>Scrutiny, District &amp; Deputy Chairs</b>	<b>Member/Officer Relationship</b>
Aim: To develop good community governance with effective and positive scrutiny	Aim: members and officers share understanding about their roles and responsibilities and how they work together
<ul style="list-style-type: none"> <li>Understand the new constitution, roles and responsibilities and what it means in practice</li> </ul>	Member & Officers – redefined roles & expectations, supported by development programme
<ul style="list-style-type: none"> <li>Future District Delivering Differently programme overview and how to implement locally</li> </ul>	<ul style="list-style-type: none"> <li>Underpinning behavioural standards, the new constitution and community governance with outward place focus</li> </ul>
<ul style="list-style-type: none"> <li>Joint session with Scrutiny and District Chairs/Vice Chairs on new ways of working together</li> </ul>	

- 3.40. During 2015/16, the 'My Appraisal' review process for all staff was introduced. This streamlined the personal review process and enabled a consistent means of assessing and rewarding performance. 'My Appraisal' is specifically designed to ensure that employees are supported to implement the Council's core values:
- We put citizens first
  - We are true to our word
  - We act courageously
  - We achieve excellence

#### Engagement with the community and other stakeholders

- 3.41. The Council engages in a wide range of consultation and engagement activities to inform service delivery and decision making. These are summarised in an annual statement and on-line consultation database. The Council Business Plan 2016+ consultation process included public meetings led by the Council's Leader and Cabinet, consultation via online webcast question and answer sessions with Cabinet Members, consultation via post, mail, text and through the City's website, consultation with business representatives, young people and focus groups from Birmingham's People's panel and meetings with staff and Trade Unions.
- 3.42. The Council's Scrutiny function regularly engages with key partners and other interested groups and individuals in order to assess the impact and suitability of the Council's activity. The Scrutiny Committees make an annual report to Full Council.
- 3.43. The Customer First programme and Communications Review ensures that clear channels of communication are in place with service users, citizens and stakeholders. The Council holds meetings in public wherever possible. Directorates have extensive programmes of consultation and engagement activity for specific services.

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

- 4.1. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the CLT within the Council who have responsibility for the development and maintenance of the governance environment, Birmingham Audit's annual report, and also by comments made by the external auditors, Birmingham's Independent Improvement Panel and other review agencies and inspectorates.
- 4.2. The Council continues to assess how its overall corporate governance responsibilities are discharged. In particular the Council has adopted the CIPFA/Solace framework, 'Delivering Good Governance in Local Government' and continues to learn from experiences and makes necessary changes to improve its local code of governance. The Council's review process uses the Key Roles and Core Principles included in this guidance and this Statement sets out how the Council meets these roles and principles in its control and governance arrangements.
- 4.3. The Council has a well-developed methodology for annual governance review which is reviewed and updated each year. During 2015/16 a fundamental review to both strengthen and streamline the process was undertaken. The process requires each Directorate and significant areas of service delivery / business units within a directorate to produce an Assurance Statement highlighting significant governance issues, and details of what action(s) are being taken to mitigate any risks.
- 4.4. The Council's review of the effectiveness of the system of internal control is informed by:
  - Directorate assurance based on management information, performance information, officer assurance statements and Scrutiny reports;
  - the work undertaken by Birmingham Audit during the year;
  - the work undertaken by the external auditor reported in their annual audit and inspection letter; and
  - other work undertaken by independent inspection bodies.
- 4.5. The arrangements for the provision of internal audit are contained within the Council's Financial Regulations which are included within the Constitution. The Strategic Director of Finance and Legal is responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting and other systems of internal control as required by the Accounts and Audit Regulations 2015. The internal audit provision operates in accordance with the Public Sector Internal Audit Standards.
- 4.6. As in previous years the Birmingham Audit plan was compiled using professional judgement and a risking model to 'score' all potential 'auditable' areas. To meet the standards required there was a need to ensure sufficient coverage of the adequacy and effectiveness of systems of internal control in relation to financial control, risk management, corporate governance and an element for proactive and reactive fraud work.

- 4.7. The resulting work plan is discussed and agreed with the Strategic Directors and the Audit Committee and shared with the Council's external auditor. Regular meetings between the internal and external auditor ensure that duplication of effort is avoided. Birmingham Audit reports include an assessment of the adequacy of internal control and prioritised action plans to address any identified weaknesses and include a risk rating for the City Council and the Service Area. These are submitted to Members, Strategic Directors and service managers as appropriate.
- 4.8. From the work undertaken by Birmingham Audit in 2015/16 and the outcomes from applying the model for formulating the end of year opinion the following assurance was able to be given: "I am able to provide reasonable assurance." In this context 'reasonable assurance' means that the systems can be relied upon to prevent error, fraud or misappropriation occurring without detection, and that nothing was found that would materially affect the Council's standing or Annual Accounts. As in any large organisation, Internal Audit did identify a number of concerns that required remedial action and these were reported to the appropriate Strategic Director or Senior Manager during the year. All significant issues have also been brought to the attention of the Audit Committee, and where appropriate to EMCB. The more significant of these are set out in the section entitled '**Significant governance issues 2015/16**' below.
- 4.9. The internal audit function is monitored and reviewed regularly by the Audit Committee. The Committee also reviews management progress against issues raised in the AGS and in implementing recommendations made in significant, high risk audit reports.
- 4.10. The Council's Corporate Resources Overview and Scrutiny Committee received reports on key control issues throughout 2015/16 including budgetary monitoring, risk issues including responding fully to the Kerslake Review recommendations and implementing the Future Council Programme and direct reports from The Deputy Leader.
- 4.11. The Council Plan is monitored through the Council Business Plan Measures on a quarterly basis both by the Executive and Overview and Scrutiny Committees. Directorate, Divisional, and Service unit business plans contain a variety of performance indicators and targets, which are regularly reviewed.
- 4.12. The Monitoring Officer advises that there were 136 whistleblowing complaints in the 2015/16 financial year. On 12<sup>th</sup> January 2015, a revised whistleblowing policy was implemented and members of the public as well as staff may now use the procedure. This has resulted in a greater number of complaints. Each complaint is reviewed and investigated where appropriate.

## 5. **Review of 2014/15 governance issues**

- 5.1. During 2015/16, the significant 2014/15 governance issues were considered by Audit Committee in June, with updates in November 2015 and March 2016. In addition, this Committee received reports relating to the Corporate Risk Register, Final Accounts, Financial Resilience and Equal Pay.

- 5.2. Children's Safeguarding issues were considered by Cabinet and the Education and Vulnerable Children O&S Scrutiny Committee. The Educational and Vulnerable Children O&S Committee also considered issues originally raised within Lord Warner's Report and governance in schools.
- 5.3. Monthly Revenue Budget Monitoring reports and quarterly Capital Budget Monitoring reports were considered by Cabinet.
- 5.4. The Council worked closely with the BIIP to formulate and implement action plans in response to the Kerslake review. Work continues to embed the processes into 2016/17 and beyond.
6. **Significant governance issues 2015/16**
- 6.1. The matters shown in this section have either been identified as having a significant or high likelihood in the Corporate Risk Register or have been highlighted as corporate issues in the annual assurance process. The Council actively addresses these matters and identifies areas where further improvements need to be made. In particular:

Issue No	Governance Issue	Mitigation Action / Proposed Action
1	<p>Safeguarding children remains a priority.</p> <p>Work will continue to review the action plans in place as a result of the review by Commissioner Lord Warner and producing a robust Business Plan for 2016/17 and future years.</p> <p>The Care Act 2014 sets out the legal requirements for adult safeguarding.</p>	<p>The Council has launched an operating model which sets out the vision, values, direction and shape of the service.</p> <p>A Practice Evaluation Programme has been introduced.</p> <p>A clear performance framework that provides challenge and accountability at all levels has been introduced.</p> <p>The Care Act established the requirement to set up an independent Safeguarding Board for Adults. Arrangements are in place to work alongside the existing membership of the Birmingham Adults Safeguarding Board (BSAB) with a view to ensuring that local arrangements are compliant with the Care Act.</p>

Issue No	Governance Issue	Mitigation Action / Proposed Action
2	<p>The Council faces continued reducing resources. This poses challenges to the financial resilience of the Council.</p> <p>The Council's Business Plan sets medium term strategies for business changes, the management and development of its services and maintenance of its assets, and a specific plan over a period of up to 10 years.</p> <p>Given the Council is in the sixth year of budget reductions the possibility of Judicial Review challenge to the budget or elements of it remains high.</p>	<p>Service Reviews considered options for future service delivery in the light of corporate priorities, statutory duties, service performance standards and resources available.</p> <p>By focussing on its Future Council 2020 vision, the Council has agreed its 2016/17 budget and a multi-year financial strategy to deliver the vision</p>
3	<p>The risk of Equal Pay Claims remains significant and is being actively managed by a joint team from Legal Services and Human Resources. Financial resilience continues to be a focus for the external auditors and increasing demands to evidence Going Concern.</p>	<p>The law in respect of equal pay is complex and has developed over the past 10 years. Any entitlement to compensation has to be justified in accordance with the legal position. Equal pay claims issued against the Council are subject to detailed analysis and robust legal challenge. The Council has sought to secure settlements that represented the best outcome for the taxpayer.</p>
4	<p>From the review of governance arrangements made by Lord Kerslake and following the BIIP's review, work on the Future Council Programme continues. This includes:</p> <ul style="list-style-type: none"> <li>• Clear values, purpose and vision for the future Council, along with its future operating model;</li> <li>• A medium term outcomes-driven council and financial plan to take the Council to 2020/21;</li> <li>• Strategic alignment of outcomes, resources, policy-</li> </ul>	<p>Develop the Future Council Programme to:</p> <ul style="list-style-type: none"> <li>• Define the vision for the Council.</li> <li>• Deliver the changes required in workforce, organisation and infrastructure to achieve a financially sustainable and resilient operating model.</li> <li>• Create an agile and adaptive organisation.</li> <li>• Deliver the actions set out in the Organisation Improvement Plan, developed in response to the Kerslake review and BIIP.</li> </ul>

Issue No	Governance Issue	Mitigation Action / Proposed Action
	<p>making, service delivery, governance and roles and responsibilities; and</p> <ul style="list-style-type: none"> <li>• Sufficient senior leadership capacity to transform the organisation and deliver sustainable change.</li> </ul>	
5	<p>The Council is seeking ways to improve effective partnership working, such as working with neighbouring authorities through establishing the combined authority and taking forward the devolution deal.</p> <p>The Council is looking at ways of working together across a range of agencies, to improve services outcomes and reduce costs.</p> <p>Options may include:</p> <ul style="list-style-type: none"> <li>• Using or considering alternative delivery vehicles.</li> <li>• Outsourcing of services.</li> <li>• Commissioning services.</li> </ul>	<p>The partnership with neighbouring authorities and the devolution deal the Council signed with the Chancellor of the Exchequer in November 2015 are major steps forward for Birmingham and the West Midlands. The Council must continue to work closely together through the next vital stages as it establishes the Combined Authority and begins to implement devolution - making sure that work leads to permanent benefits for the region.</p> <p>The Future Council Sub programme Outward Looking Partnerships is reviewing the way the Council works with its partners - working equally to a common shared purpose.</p> <p>Any transfer, commissioning or outsourcing of services is subject to the development and Cabinet approval of robust business cases.</p>
6	<p>The current challenging financial environment has required significant organisational upheaval as well as workforce reductions and compulsory redundancies.</p> <p>These organisational changes can impact on the productivity and efficiency of the organisation through the loss of experienced staff; impacts on the morale of the workforce, with the potential negative consequences on employee relations and increased the potential for industrial action.</p>	<p>Through the Future Council Programme: Forward the Birmingham Way, a new employee engagement programme is focused on redefining organisational and employee expectations and requirements.</p> <p>In the forthcoming year the significant budget reductions including the proposals for the new workforce contract may strain industrial relations. However, positive local relationships with the trades unions and their understanding of the challenges will contribute to mitigating and managing this.</p>

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

Signed .....  
Councillor John Clancy  
Leader of the Council

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

Signed .....  
Jon Warlow  
Strategic Director - Finance and Legal  
(& Chief Finance Officer)

Signed .....  
Stuart Evans  
Interim City Solicitor  
(& Monitoring Officer)





# Audit Committee Progress and Update Report for Birmingham City Council *Year ended 31 March 2016*

June 2016

**Phil Jones**

Engagement Lead

T 0121 232 5232

E [phil.w.jones@uk.gt.com](mailto:phil.w.jones@uk.gt.com)

**Richard Percival**

Associate Director

T 0121 232 5434

E [richard.d.percival@uk.gt.com](mailto:richard.d.percival@uk.gt.com)

**Lorraine Noak**

Manager

T 0121 232 5407

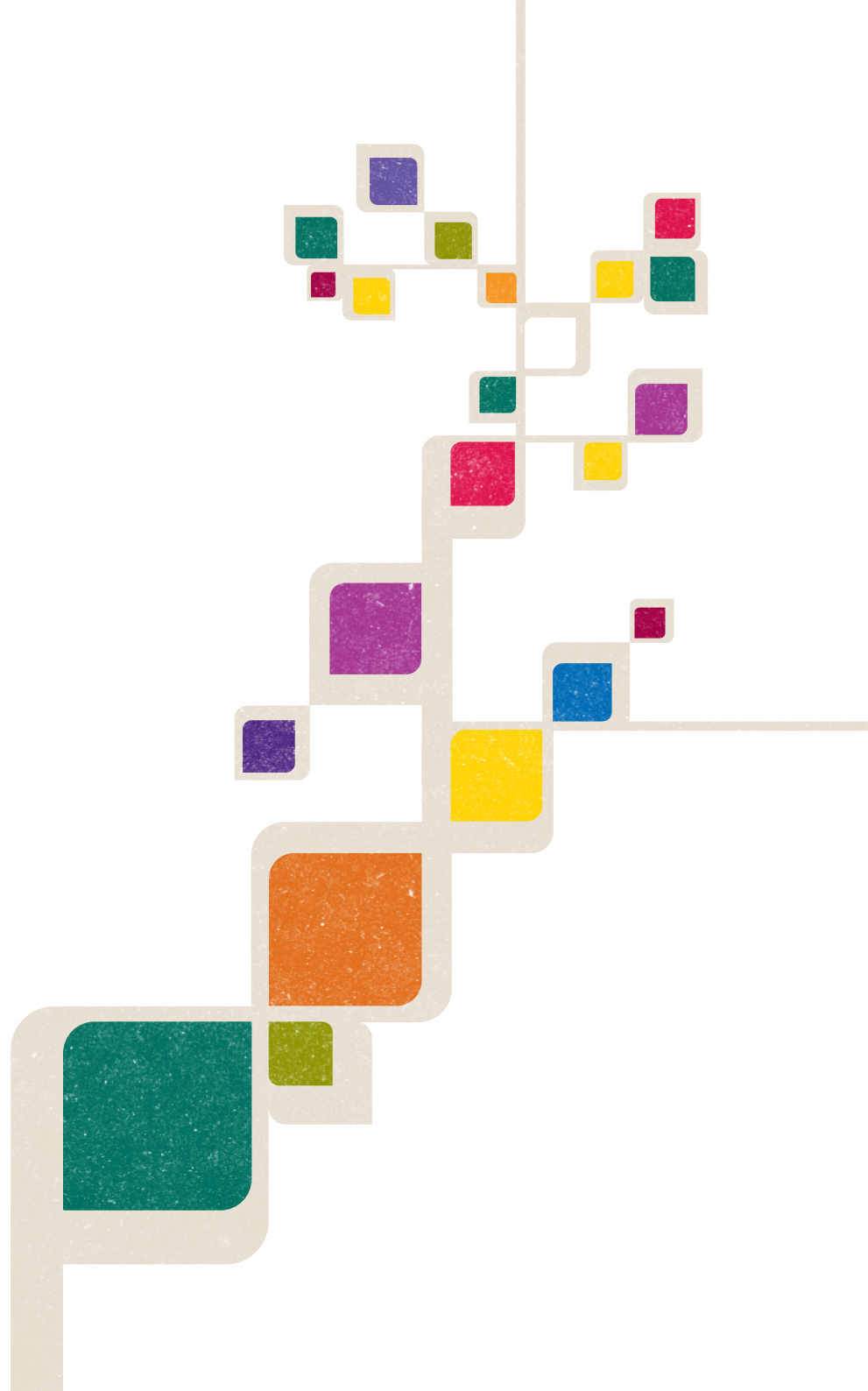
E [lorraine.noak@uk.gt.com](mailto:lorraine.noak@uk.gt.com)

**Helen Edmonds**

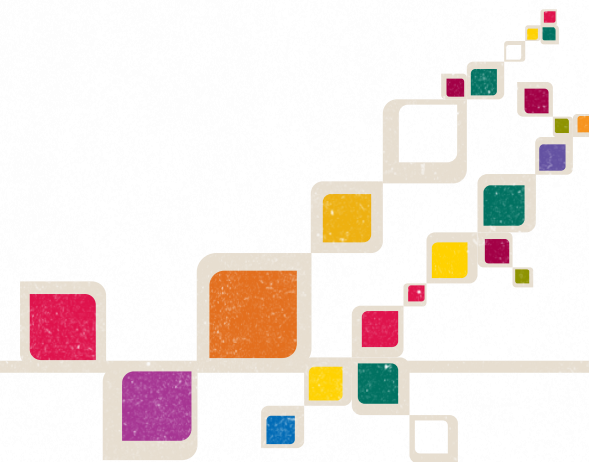
Manager

T 0121 232 5392

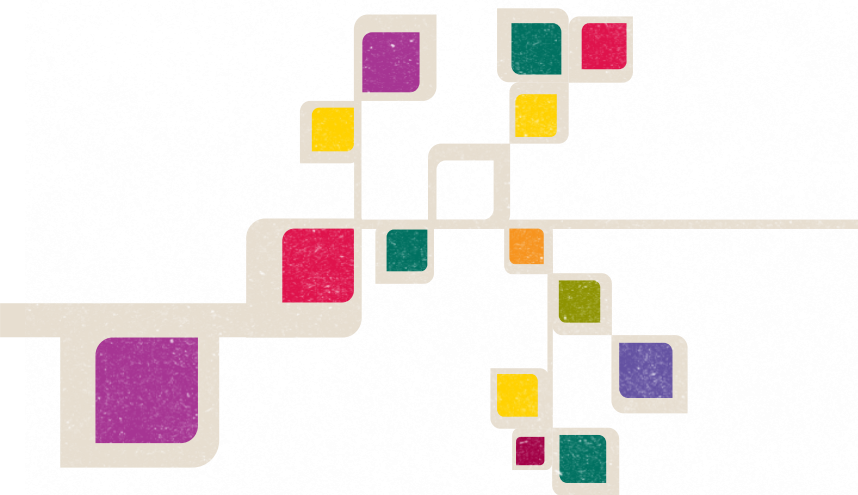
E [helen.edmonds@uk.gt.com](mailto:helen.edmonds@uk.gt.com)



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



# Contents



Contents	Page
Introduction	4
Progress at June 2016	5
Results of interim audit work	7
Value for money	10
Emerging issues and developments:	
Grant Thornton reports	13
Other publications	15



# Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

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

- Better Together: Building a successful joint venture company;  
<http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>
- Knowing the Ropes – Audit Committee; Effectiveness Review ;  
[www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/](http://www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/)
- Making devolution work: A practical guide for local leaders (October 2015)  
[www.grantthornton.co.uk/en/insights/making-devolution-work/](http://www.grantthornton.co.uk/en/insights/making-devolution-work/)

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



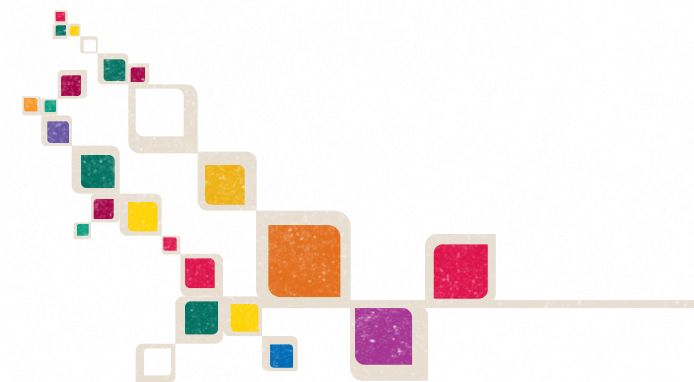
**Phil Jones**  
Engagement Lead

**T** 0121 232 5232  
**M** 07880 456 114  
**E** [phil.w.jones@uk.gt.com](mailto:phil.w.jones@uk.gt.com)



**Richard Percival**  
Associate Director

**T** 0121 232 5434  
**M** 07584 591 508  
**E** [richard.d.percival@uk.gt.com](mailto:richard.d.percival@uk.gt.com)



# Progress at 21 June 2016



**Progress against plan**  
On track



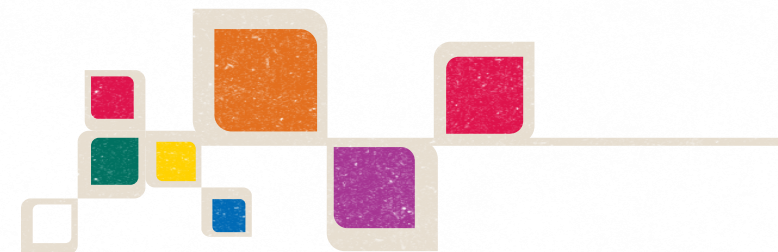
**Opinion and VfM conclusion**  
Plan to give before deadline of  
30 September 2016



**Outputs delivered**  
Fee letter, Progress Reports, delivered  
to plan

2015/16 work	Completed	Comments
<b>Fee Letter</b> We issued the planned fee letter for 2015/16 in April 2015.	April 2015	We have also recently issued the fee letter for 2016/17, with no change to the fee proposed. This is reported to this meeting of the Audit Committee.
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2015-16 financial statements.  We also inform you of any subsequent changes to our audit approach.	March 2016	This was presented to the Audit Committee in March.
<b>Interim accounts audit</b> Our interim fieldwork visit included: <ul style="list-style-type: none"> <li>• updating our review of the Council's control environment</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> </ul>	March 2016	Interim audit findings for the work completed to date are included in this report (pages 7 - 9).  As part of our formal communication between auditors and the council's Audit Committee, as 'those charged with governance', we prepare a specific report which covers some important areas of the auditor risk assessment where we are required to make inquiries of management and the Audit Committee under auditing standards. This was also presented to the Audit Committee in March.

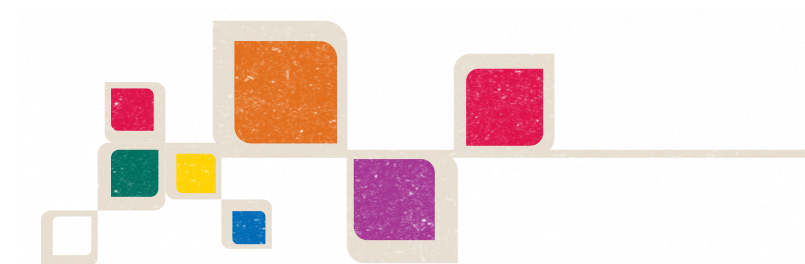
# Progress at 13 May 2016



2015/16 work	Completed	Comments
<b>Final accounts audit</b> Including: <ul style="list-style-type: none"> <li>Audit of the 2015-16 financial statements</li> <li>proposed opinion on the Council's accounts</li> </ul>	Planned for June - August, In Progress	<p>We are planning to complete our audit by 31<sup>st</sup> August as part of the transition to the earlier closedown and audit cycle that is required from 2018.</p> <p>We are working with the Financial Accounts Team to support improvements in accounts production efficiency and the project management of the audit</p>
<b>Value for Money (VfM) conclusion</b> The scope of our work has changed and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people". The three sub criteria for assessment to be able to give a conclusion overall are: <ul style="list-style-type: none"> <li>Informed decision making</li> <li>Sustainable resource deployment</li> <li>Working with partners and other third parties</li> </ul>	Field work in March – July , In Progress	<p>We have considered the potential significant risks for our VfM conclusion and identified the following issues:</p> <ul style="list-style-type: none"> <li>- Future Council</li> <li>- Savings challenge</li> <li>- Health and social care funding</li> <li>- Services for vulnerable children</li> <li>- Management of Schools</li> <li>- Improvement Panel</li> <li>- Equal pay</li> </ul> <p>We have begun to carry out key document reviews and interviews to inform our conclusion.</p> <p>The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report.</p>
<b>Other activities</b> We provide a range of workshops, along with network events for members and publications to support the Council. Meetings with Members, Officers and others.	On-going	<p>We are continuing to hold regular meetings with key members, the Chief Executive and Strategic Directors. We also have meetings planned with the Children's Commissioner and the Vice Chair of the Improvement Panel</p> <p>Further details of the publications that may be of interest to the Council are set out from page 13.</p>

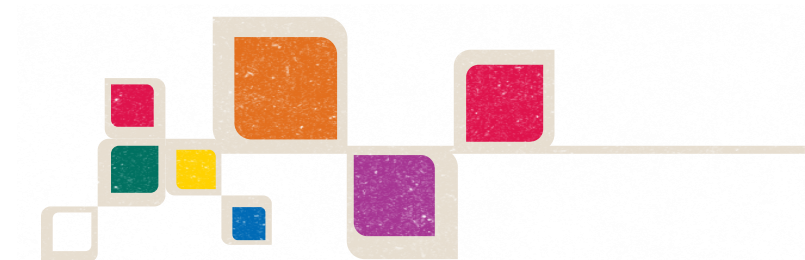
# Results of interim audit work

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



	Work performed	Conclusion
<b>Internal audit</b>	We have completed a high level review of internal audit's overall arrangements. We have also considered the outcome of internal audit's work on the Council's key financial systems to date.	Overall, we have concluded that the arrangements for internal audit contribute to an effective internal control environment.  Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	Our work has identified no material weaknesses in these overall controls which are likely to adversely impact on the Council's financial statements
<b>Journal entry controls</b>	We have reviewed the Council's journal entry policies and procedures as part of determining our testing strategy. We have carried out testing of material journal types from months 1 to 9, and extracted journals with 'unusual' criteria for detailed review.	We have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements. Further work will be completed at the final accounts visit to update our journals testing to the year end, including coverage of both material and non-material journals types.

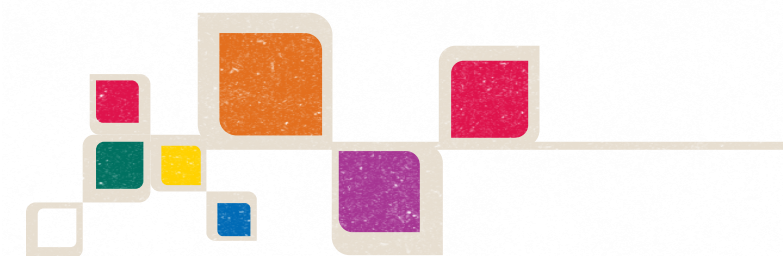
## Results of interim audit work



	Work performed	Conclusion
<b>IT controls</b>	<p>We have undertaken a detailed review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>We considered the progress made to implement the recommendations made in 2014/15.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p> <p>.</p>
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements – namely employee remuneration and operating expenses.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p> <p>Our walkthrough testing confirms that internal controls have been implemented by the Council in accordance with our documented understanding and our work has not identified any weaknesses which impact on our planned audit approach.</p> <p>We have also commenced walkthrough tests of controls relating to property, plant and equipment. Some of these controls are year end controls so we will complete the walkthrough testing during our final account visit. Testing to date has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>



# Results of interim audit work



We have carried out some substantive testing at this early stage of the audit and this will be extended at the accounts audit.

	Work performed	Conclusion
<b>Employee remuneration</b>	<p>In our testing completed to date we have:</p> <ul style="list-style-type: none"> <li>Performed a trend analysis for the full year to identify areas which may require additional procedures.</li> <li>Tested a sample of items of payroll expenditure for the full year to relevant documentation to confirm the accuracy of pay.</li> </ul>	<p>Our work on Employee Remuneration is substantially complete. To date our work has not identified any issues that we wish to highlight for your attention.</p> <p>Further testing will be carried out at our accounts audit visit to finalise our work including review of any fluctuations identified via our trend analysis, and updating our testing of a sample of payroll expenditure.</p>
<b>Operating expenditure</b>	<p>We tested a initial sample of operating expenses from months 1 to 9 to ensure they are valid expenses and have been accurately accounted for in the correct period.</p>	<p>Our work has not identified any issues that we wish to highlight for your attention.</p>
<b>Housing benefit expenditure</b>	<p>In our testing completed to date we have:</p> <ul style="list-style-type: none"> <li>Confirmed the correct parameters have been entered into the housing benefit system</li> </ul>	<p>Our work completed to date has not identified any issues that we wish to highlight for your attention.</p> <p>Further testing will be carried out at our accounts visit, to include testing based on the 'HB COUNT' approach as in previous years.</p>
<b>Assets</b>	<p>In our testing completed to date we have:</p> <ul style="list-style-type: none"> <li>Verified a sample of the Council's property assets to the deeds.</li> <li>Verified the existence of a sample of the Council's property, plant and equipment assets.</li> </ul>	<p>Our work to date has not identified any issues that we wish to highlight for your attention.</p>
<b>Opening balances</b>	<p>We have confirmed that the opening balances brought into the general ledger for 2015/16 are in agreement with the audited balance sheet for 2014/15.</p>	<p>No matters to bring to your attention.</p>

# Value for Money

## Background

The Local Audit & Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') require us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work in November 2015.

The Act and the NAO guidance state that auditors are only required to report by exception where they are not satisfied that NHS bodies have proper arrangements in place to secure value for money. However, we are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council.

The guidance identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

This is supported by three sub-criteria as set out in the table to the right.

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> <li>Acting in the public interest, through demonstrating and applying the principles and values of good governance</li> <li>Understanding and using appropriate cost and performance information to support informed decision making and performance management</li> <li>Reliable and timely financial reporting that supports the delivery of strategic priorities</li> <li>Managing risks effectively and maintaining a sound system of internal control.</li> </ul>
Sustainable resource deployment	<ul style="list-style-type: none"> <li>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</li> <li>Managing assets effectively to support the delivery of strategic priorities</li> <li>Planning, organising and developing the workforce effectively to deliver strategic priorities.</li> </ul>
Working with partners and other third parties	<ul style="list-style-type: none"> <li>Working with third parties effectively to deliver strategic priorities</li> <li>Commissioning services effectively to support the delivery of strategic priorities</li> <li>Procuring supplies and services effectively to support the delivery of strategic priorities.</li> </ul>

## Risk assessment

We completed an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements
- illustrative significant risks identified and communicated by the NAO in its Supporting Information
- any other evidence which we consider necessary to conclude on your arrangements

We have identified significant risks which we are required to communicate to you. The NAO's Code of Audit Practice defines 'significant' as follows:

*A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.*

# Value for money

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
Savings Challenge	This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.	<p>We propose to meet with key officers to discuss key strategic challenges and the Council's proposed response and consider reports to members to:</p> <ul style="list-style-type: none"> <li>review the outturn position for 15/16 and the budget plans for 16/17 and 17/18</li> <li>review the Council's progress in updating its medium term financial strategy</li> </ul>
Future Council	This links to the Council's arrangements for planning, organising and developing the workforce effectively to deliver strategic priorities and also to the arrangements for managing risks effectively and maintaining a sound system of internal control.	<p>We will discuss with key officers and review reports to consider:</p> <ul style="list-style-type: none"> <li>what progress is being made to implement the service reviews</li> <li>how the Council is addressing the risks and challenges associated with the changes in working arrangements</li> <li>how the Council is dealing with the one off costs associated with the changes.</li> </ul>
Health and Social Care Funding	This links to the Council's arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control.	We will consider the Council's arrangements to monitor the performance and governance of this venture and how it continues to assess whether the joint venture contributes to the effective delivery of its strategic objectives, through discussion with officers and review of key documents.

# Value for money

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
Services for Vulnerable Children	This links to the Council's arrangements for commissioning services effectively to deliver strategic priorities.	We will discuss with key officers and review update reports from and to the DFE to consider what progress the Council has made with the improvement plan.
Management of Schools	This links to the Council's arrangements for acting in the public interest, through demonstrating and applying the principles and values of sound governance.	We will discuss with Sir Mike Tomlinson (Education Commissioner) and key officers to assess the progress made by the Council with the implementation of the Single Integrated Plan.
Improvement Panel	This links to the Council's arrangements for acting in the public interest, through demonstrating and applying the principles and values of sound governance and the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.	We will discuss with Frances Done (Vice Chair of the Improvement Panel) and review reports to the Secretary of State to understand the Improvement Panel's assessment of the progress made by the Council.
Equal Pay	This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.	We will discuss with key officers and review the Equal Pay settlement plan and consider the residual risk following the sale of Grand Central.

# Better Together: Building a successful joint venture company

Local government is evolving as it looks for ways to protect front-line services. These changes are picking up pace as more councils introduce alternative delivery models to generate additional income and savings.

'Better together' is the next report in our series looking at alternative delivery models and focuses on the key areas to consider when deciding to set up a joint venture (JV), setting it up and making it successful.

JVs have been in use for many years in local government and remain a common means of delivering services differently. This report draws on our research across a range of JVs to provide inspiring ideas from those that have been a success and the lessons learnt from those that have encountered challenges.

Key findings from the report:

- JVs continue to be a viable option – Where they have been successful they have supported councils to improve service delivery, reduce costs, bring investment and expertise and generate income
- There is reason to be cautious – Our research found a number of JVs between public and private bodies had mixed success in achieving outcomes for councils
- There is a new breed of JVs between public sector bodies – These JVs can be more successful at working and staying together. There are an increasing number being set up between councils and wholly-owned commercial subsidiaries that can provide both the commercialism required and the understanding of the public sector culture.

Our report, Better Together: Building a successful joint venture company, can be downloaded from our website: <http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>

Grant Thornton reports



ALTERNATIVE SERVICE DELIVERY MODELS IN LOCAL GOVERNMENT

Better together  
Building a successful  
joint venture company





# Knowing the Ropes – Audit Committee Effectiveness Review

Grant Thornton reports

We have published our first cross-sector review of Audit Committee effectiveness encompassing the corporate, not for profit and public sectors.

It provides insight into the ways in which audit committees can create an effective role within an organisation's governance structure and understand how they are perceived more widely. The report is structured into four key issues:

- What is the status of the audit committee within the organisation?
- How should the audit committee be organised and operated?
- What skills and qualities are required in the audit committee members?
- How should the effectiveness of the audit committee be evaluated?

The detailed report is available here

<http://www.grantthornton.co.uk/en/insights/knowning-the-ropes--audit-committee-effectiveness-review-2015/>



# Fighting Fraud and Corruption Locally

CIPFA publication

**Fighting Fraud and Corruption Locally** is a strategy for English local authorities that is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape .

This strategy is the result of an intensive period of research, surveys, face-to-face meetings and workshops. Local authorities have spoken openly about risks, barriers and what they feel is required to help them improve and continue the fight against fraud and to tackle corruption locally.

Local authorities face a significant fraud challenge. Fraud costs local authorities an estimated £2.1bn a year. In addition to the scale of losses, there are further challenges arising from changes in the wider public sector landscape including budget reductions, service remodelling and integration, and government policy changes. Local authorities will need to work with new agencies in a new national counter fraud landscape.

The strategy:

- calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment
- illustrates the financial benefits that can accrue from fighting fraud more effectively
- calls upon central government to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers to improvement
- updates and builds upon Fighting Fraud Locally 2011 in the light of developments such as The Serious and Organised Crime Strategy and the first UK Anti-Corruption Plan
- sets out a new strategic approach that is designed to feed into other areas of counter fraud and corruption work and support and strengthen the ability of the wider public sector to protect itself from the harm that fraud can cause.

The strategy can be downloaded from

<http://www.cipfa.org/services/counter-fraud-centre/fighting-fraud-and-corruption-locally>





© 2016 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

[grantthornton.co.uk](http://grantthornton.co.uk)

GRT102468