

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	Audit Committee
Report of:	Assistant Director, Audit and Risk Management
Date of Meeting:	14th March 2017
Subject:	Birmingham Audit – Development of the 2017/18 Internal Audit plan

Wards Affected: All

1. Purpose of report.

1.1 The purpose of this report is to update members on progress in developing the 2017/18 internal audit plan.

2. Recommendations

2.1 That members of the Audit Committee:

2.1.1 note the progress being made in the development of the 2017/18 internal audit plan;

2.1.2 consider the proposed internal audit coverage and identify any areas they wish to suggest for inclusion in the audit risking process; and

2.1.3 agree to approve the final plan at the June 2017 meeting.

3. Legal and Resource Implications

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

4. Risk Management & Equality Analysis Issues

- 4.1 Risk management forms an important part of the internal control framework that the Council has in place and is taken into account in setting the audit plan.
- 4.2 We have undertaken Equality Analysis for all of our key policies and procedures and where appropriate have developed action plans to address any potential adverse impacts.

5. Compliance Issues

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

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Birmingham Audit – Development of the 2017/18 Internal Audit plan

14th March 2017

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1. Background

- 1.1 It is a statutory requirement for Local Authorities to have an internal audit function. Within the Council this function is delivered in house by Birmingham Audit.
- 1.2 Birmingham Audit provides a range of internal audit and counter fraud services. These include audit reviews of the Council's financial and operational systems, computer audit reviews, corporate and social housing fraud investigations, fraud awareness and proactive fraud detection, corporate governance and risk management reviews, and compliance reviews to check adherence to Council policies, procedures and systems. The legislative framework and professional standards / guidelines we are required to adhere to include:
 - Accounts and Audit Regulations 2015.
 - Fraud Act 2006.
 - Social Housing Fraud (Power to Require Information) Regulations 2014.
 - Council Tax Reduction Schemes (Detection of Fraud and Enforcement) Regulations 2013.
 - The Public Sector Internal Audit Standards.
- 1.2 The annual audit plan is prepared using a risk based methodology that enables the provision of an independent opinion on the adequacy and effectiveness of the systems of internal control (comprising of risk management, corporate governance, financial and operational controls). The plan is dynamic and is constantly reviewed and updated to reflect the changing risks faced by the Council.
- 1.3 This assessment has regard for the adequacy of the overall assurance framework that is in place across the Council. Whilst Internal Audit is a key part of this framework, it also includes internal and external processes such as day to day management controls, performance management, 'inspection' functions, directorate assurance statements, and assurances provided by external sources; such as the Council's external auditor.

- 1.4 The independent audit opinion feeds into the published Annual Governance Statement. The emphasis of internal audit provision remains reviewing the controls around the risks that may prevent the Council from meeting its objectives and detecting and preventing fraud. Within this there is a need to ensure that legislative and regulatory requirements and professional standards are met.
- 1.5 We are continuing to review, revise and update our working practices and methodologies. In particular, we are continuing to use technology and the data at our disposal to work 'smarter' and ensure the most efficient and effective use of the available resources.
- 1.6 In July 2016 an independent assessment was undertaken against our level of compliance with the Public Sector Internal Audit Standards. This assessment identified that:

"Birmingham City Council's Internal Audit Service conforms to the requirements of the Public Sector Internal Audit Standards" and that "Our external assessment found that BCC's Internal Audit Service is well positioned, valued and makes an active contribution to the continuous improvement of systems of governance, risk management and internal control. This is achieved through both the delivery of the planned programme of audit work but also the active engagement and involvement of the Audit Service in developing systems and corporate working groups."

2. Internal Audit Plan 2017/18

- 2.1 Our estimated number of audit days available for 2017/18 is 5113. This compares to 5443 in 2016/17 (a decrease of 330 days or 6%). This decrease is as a result of the implementation of a revised structure with effect from 1st October 2016 which saw the consolidation of three service based audit teams into a single team and the corresponding reduction in Group Auditor posts.
- 2.2 As part of our planning process we have undertaken an assurance mapping exercise across the whole of the organisation. This involves identifying the key objectives and priorities of the Council, the systems of governance and financial control,

together with the risks associated with their achievement / operation. A view as to where 'assurance' over activities can be gained is then formed. In undertaking this mapping exercise we have used our knowledge and experience of the organisation as well as liaising with key stakeholders including Audit Contact Officers, Directorate Management Teams and Strategic Directors.

2.3 The first call on our time is to provide an assurance around the main financial systems. We are continuing to utilise data analytical techniques to review transactions and controls. This is less resource intensive and enables us to provide greater coverage and a more informed assurance. In completing our work in this area we liaise closely with the Council's external auditors. We have allocated 905 days for the main financial systems work, including the review of IT controls, in 2017/18 the main areas we intend to cover are:

- Payroll
- Accounts Payable
- Accounts Receivable
- Procurement - incorporating Contract Auditing
- Council Tax
- NNDR
- Benefits
- Financial Management/Control
- Asset Management/Fixed Assets
- PFI
- Rent Collection and Charges
- Government Grant Claims
- Non invoiced income / Cashiers
- Income and Expenditure in Schools
- Carefirst

- 2.4 As part of this work we will review changes to process introduced through the creation of the proposed central processing Hub.
- 2.5 We have also 'ring-fenced' a number of days to support the Corporate Fraud Team and to complete the school visit programme.
- 2.6 The Corporate Fraud Team undertake investigations on allegations of internal fraud involving members of staff, Council members, suppliers of goods and services to the Council and / or organisations that are in receipt of Council funding. The team also undertakes pro-active anti-fraud work and develops and delivers fraud awareness training throughout the organisation. Within the 2017/18 plan we have allocated 830 days for this work. We use a referral assessment process to determine which referrals we will investigate; this ensures our specialist skills are deployed in the areas of greatest risk. Where we are not able to devote resources to investigating a referral we will continue to provide support and guidance to managers as appropriate.
- 2.7 The Council's Education Improvement Plan is aimed at implementing significant cultural and procedural change within the management of schools. In July 2015 additional funding was made available to Birmingham Audit to support the establishment of a schools visiting team. 945 days have been allocated within the 2017/18 plan for the completion of these visits. A schedule of the schools to be visited is agreed on a monthly basis in consultation with representative from the Directorate for People.
- 2.7 The remainder of our available resource is allocated based on our assessment of risk. We will use our risking model to 'score' all potential 'auditable' areas and then rank them in order of priority. There are a number of factors that are considered as part of the risk model:
- assessment of the adequacy of the control environment;
 - strategic alignment to organisation priorities;
 - materiality;

- sensitivity/reputational risk;
- assessment of management controls;
- management concerns;
- assurance based on internal audit work / knowledge and how recent that was;
- inclusion in the corporate risk register;
- assurance based on scrutiny reviews;
- assurance based on external audit or other inspectorate work and how recent that was; and
- assurance gained from other sources, including that gained from operational and performance management.

- 2.8 The risk assessment is dynamic and responsive to changing circumstances. We continually review and update our risk assessment; this will include any potential control concerns emerging from the implementation of the Future Operating Model (FOM). The audit plan will, therefore, continue to change and evolve in line with emerging risks and priorities.
- 2.9 A summary of the 2017/18 audit plan, based on our current assessment of risk is detail in Appendix A, previous year figures are provided for comparative purposes. A detailed draft 2017/18 plan, outlining the proposed areas of review, is detailed in Appendix B. We are continuing to revise and update this plan, based on discussions and feedback with senior managers.
- 2.10 The views and engagement of the Audit Committee are important to the internal audit planning process. Members are requested to consider the proposed internal audit coverage and identify any areas they wish to suggest for inclusion in the audit risking process.
- 2.11 The revised plan, taking into account all feedback, will be represented to the Audit Committee at the next meeting (June 2017) for formal approval. Progress in delivering the plan, together with any significant issues identified, will be provided to the Audit Committee and an annual report produced at the end of the year giving an opinion on the effectiveness of the systems of internal control.

Appendix A

Internal Audit Plan Summary

	15/16		16/17		17/18	
	%	Days	%	Days	%	Days
Number of Audit Days in the annual plan	100%	4,692	100%	5,443	100%	5113
Main financial systems	21%	986	16%	860	18%	905
Business controls assurance	44%	2038	35%	1875	34%	1735
Investigations	17%	800	15%	840	16%	830
Schools (Non Visits)	3%	140	4%	195	3%	155
Schools (Visits)	-	-	17%	950	19%	945
Follow up work	5%	250	4%	225	4%	200
Ad-hoc work	4.5%	218	5%	273	3%	178
Planning & reporting	4.5%	215	3%	180	2%	125
City initiatives	1%	45	1%	45	1%	40

Appendix B

Draft Internal Audit Plan 2017/18

	Days	Total
Financial Systems (including computer audits where appropriate)		
Main Accounting	70	
Housing Rents	30	
Accounts Payable	60	
Accounts Receivable	60	
Carefirst	30	
Payroll/HR	60	
Benefits	60	
Revenue (Council Tax and NNDR)	80	
Asset Management	70	
Grants and Contributions	15	
Cash Income / Cashiers	60	
Procurement, Contract Audit and PFI	140	
Direct Payments	40	
Income / Expenditure - Schools	20	
Central transaction Hub	20	
IT related financial systems work	90	905
Business Controls Assurance		
Work in progress b/fwd. from 2016/17	40	
IT Related non-financial systems work	500	

	Days	Total
Data Analysis	200	
Corporate Risk Management Facilitation	75	
Contingency	50	
Chargeable work on behalf of Acivico	40	905
People		
Children Services (Social Care)	60	
Children Services (Education)	50	
Corporate Safeguarding	50	
Independent Living	20	
Adoption and Fostering	20	
Public Health	30	
Troubled Families Programme	20	
Prevention Agenda	15	
Assessment & Support Planning	25	
Individual budgets	20	
Residential Placements – Adults	20	
Children with Complex Needs	20	
People Commissioning	25	
Children in Care Placement Services	5	
Safeguarding & Development - BCSB	50	
Better Care Fund	25	455
Place		
Birmingham Resilience	20	
Equality, Community Safety & Cohesion	25	

	Days	Total
Waste Management	30	
Illegal Money Lending	10	
Wellbeing Service	20	
Careline	15	
Homeless - Temporary Accommodation	20	
Allocations	20	160
Economy & Corporate Resources		
Annual Audit Letter	5	
Ethics	15	
Governance	20	
New Service Delivery Vehicles	20	
Project Management	40	
Risk Management - Contribution to Improvement Agenda	15	
ACIVICO - Management Arrangements	40	
Self-Assessment - AGS Process	10	
Accountable Body	50	215
		1735
Investigations		
Reactive investigations	630	
Proactive work / Fraud Awareness	200	830
Schools		
Schools Consortium	20	
Schools Themed Work	100	
Schools Facilities Management	15	

	Days	Total
School Deficits Visits	20 945	1100
Follow Up Work		200
Ad Hoc Work		178
Planning and Reporting		125
City Initiatives		40
TOTAL		5113