BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	AUDIT COMMITTEE
Report of:	Assistant Director, Audit & Risk Management
Date of Meeting:	30th June 2022
Subject:	Birmingham Audit Annual Report 2021/22

Wards Affected:	All

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 opinion on the adequacy and effectiveness of the systems of internal control for the financial year ending March 2022. It summarises the internal audit work completed, the sources of assurance that are being relied upon, and highlights significant issues that have arisen.

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 2021/22, and compliance with the requirements set out in the Public Sector Internal Audit Standards (PSIAS).

1.3 It also sets out the Internal Audit Charter and provides an update on the Internal Audit plan for 2022/23.

2. EXECUTIVE SUMMARY

2.1 The COVID-19 pandemic has had a significant global impact. During 2021/22 restrictions were slowly and safely lifted across the UK allowing services to be reintroduced. In line with this global position 2021/22 saw the recovery of audit services; school and investigation visits were re-introduced and the limitations in our audit coverage from 2020/21 fed into our risk assessment. We are continuing to adapt our working practices in line with the Council's New Ways of Working Programme whilst seeking to make our processes agile and responsive.

2.2 Based on the audit work undertaken and the wider assurance framework I can provide a reasonable assurance on the core systems of internal controls.

2.3 As in any large organisation, our work did identify some significant issues that required action. All significant issues have been reported to the appropriate Director during the year.

2.4 Birmingham Audit has complied with the requirements laid out within mandatory professional standards during the year.

2.5 The Internal Audit Charter is a key document that sets out the purpose, authority, and responsibility of the internal audit function.

3. **RECOMMENDATIONS**

3.1 Members accept this report and the annual assurance opinion for 2021/22.

3.2 Members approve the 2022/23 Internal Audit Charter.

4. **LEGAL AND RESOURCE IMPLICATIONS**

4.1 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.

4.2 The Internal Audit service has complied with the requirements laid out in the Public Sector Internal Audit Standards.

4.3 The work is carried out within the approved budget.

5. **RISK MANAGEMENT & EQUALITY ANALYSIS ISSUES**

5.1 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.

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

6. **COMPLIANCE ISSUES**

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

Sarah Dunlavey
Assistant Director, Audit & Risk Management

Contact officer: Sarah Dunlavey, Assistant Director, Audit & Risk Management
Telephone No: 0121 675 8714
E-mail address: sarah_dunlavey@birmingham.gov.uk

Birmingham Audit Annual Report 2021/22

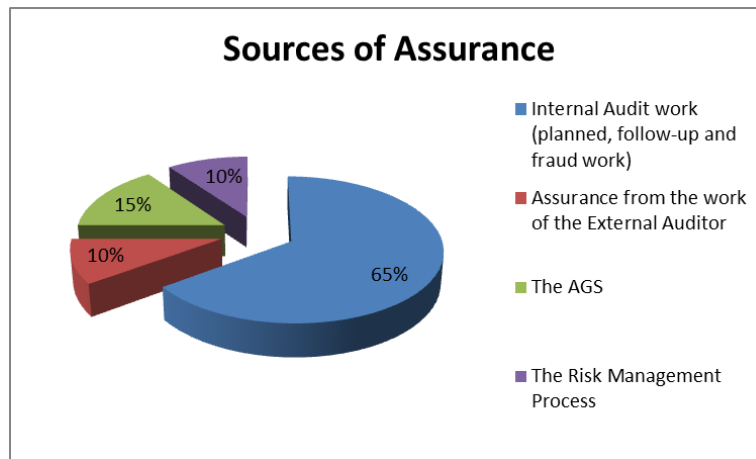**30th June 2022**

Contents

Birmingham City Council

1.   Background

1.1   The 2021/22 audit plan was prepared in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS). It also took account of responsibilities under section 151 of the Local Government Act 1972.

1.2   The Council has faced ongoing challenges during 2021/22, It has had to continue to respond to the COVID-19 Pandemic whilst recovering and restarting disrupted services. This has been against a backdrop of global Inflation and economic pressures. These pressures continue to drive the need to transform the Council and service improvement to ensure the successful delivery of services to the citizens of Birmingham.

2.   Assurance Opinion

2.1   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 of risk management, corporate governance, and financial control). My opinion forms part of the Annual Governance Statement (AGS), which the Council is legally required to produce. The COVID-19 restrictions resulted in some limitations to the scope of our worked completed during 2020/21, where it was necessary to provide focus on assisting the Council in responding to the pandemic and continuing to maintain critical services. The planned areas of audit activity that we were unable to complete were fed into the risk assessment when developing the 2021/22 audit plan. During the year we have continued to flex and reprioritise work in line with emerging risks.

2.2   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.

2.3   Our work is carried out to assist in improving control. 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 in meeting service objectives are identified and properly managed; and corporate policies, rules and procedures are adequate, effective and are being complied with.

2.4 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 2021/22 is based on the following sources of assurance and weightings:

Sources of Assurance

- 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%

2.5 Based on the audit work undertaken and the wider assurance framework I can provide a reasonable assurance on the core systems of internal controls. As in any large organisation, our work did identify some significant issues that required action. All significant issues have been reported to the appropriate Director during the year. A summary of the significant findings from our work (including the main financial systems), is included as Appendix A.

2.6 Although the Statement of Accounts for the year ending 31st March 2021 are still in draft, as the audit has not yet been completed by the Council's External Auditor, their work so far is indicating an unqualified opinion. The External Auditor is currently unable to provide an opinion on the accounts due to a national issue with Infrastructure Assets, the CIPFA LASSAAC Local Authority Code Board has announced an urgent consultation on temporary proposals to update the Code of Practice on Local Authority Accounting for Infrastructure Assets in order to resolve this national issue.

2.7 Under the new National Audit Office Code of Audit Practice for the audit year 2020/21 external auditors are required to assess the delivery of Value for Money against a new, wider, criteria covering Financial Sustainability, Governance, and Economy, Efficiency and Effectiveness and produce a more extensive report in the form of the Auditors Annual Report (AAR). Within the External Auditor's draft Annual Audit Report (March 2022), the Council has not been issued with any 'Statutory Recommendations'. The External Auditors were satisfied that the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. However, they identified four Key recommendations, two around the service delivery and assurance mechanisms in the Home to School Transport Service, one around the delivery and governance of the SEND services, and another on IT issues relating to system access and changes to the General Ledger. An action plan has been created to manage and the track progress against all recommendations arising from the Annual Audit Report. The Auditors Annual Report cannot be finalised until the External Auditor has finalised their opinion on the Council's financial statements.

2.8 Following the joint Local Area Ofsted and CQC revisit a DfE Special Educational Needs and Disabilities (SEND) services Commission was formally appointed on October 2021 to work with the Council on improving services.

3. Added Value

3.1 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:

- Completing bank checks to assist in the later rounds of COVID grants applications. Approximately 50 bank accounts checked where suspicious activity had been flagged resulting in the prevention of 8 attempted frauds.
- Continued representation on the Safeguarding Stocktake Group, which is a cross service group looking at the safeguarding issues across the Children and Families Directorate.
- Working with the Children's Trust to deliver grant/funding certifications for Troubled Families and National Assessment and Accreditation Systems (NAAS).
- Continuing to attend, chair, and contribute to schools working groups within the Children and Families Directorate.
- Working with Directorates to undertake external grant assurance and certification work, quite often at short notice.

- Contributing to the management of Cyber risks, through participation at the Cyber Security Programme Board.
- Assisting in the improvements of the Information Assurance Governance Framework, through a programme of targeted GDPR/DPA compliance reviews
- Participation in the management of data breaches and ensuring that recommendations have been acted upon and implemented in a timely manner.
- Continuing support for the ERP Replacement Programme.

4. Quality, Performance & Customer Feedback

4.1 Under the Accounts and Audit Regulations the Council must maintain an effective system of internal audit to evaluate its risk management, control, and governance processes. An annual review of the system of internal audit is no longer required under the Accounts and Audit Regulation 2015. However, Internal Audit must comply with the requirements laid out in the Public Sector Internal Audit Standards (PSIAS).

4.2 The PSIAS became effective from 1st 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.

4.3 Quality Assurance

4.3.1 The provision of a quality service continues to be important. In line with the requirements of the PSIAS a Quality Assurance and Improvement Programme (QAIP) has been developed. The programme requires both internal and external assessments of internal audit effectiveness to be undertaken to ensure compliance with PSIAS; internal quality standards; that the service is efficient, effective and continuously improving; and that the service adds value and assists the organisation in meeting its objectives.

4.3.2 Our external PSIAS review was last undertaken in July 2016. This independent assessment confirmed that the 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. Our self-assessment against the standards confirm that we continue to comply with requirements. At the February meeting, Members agreed the approach and terms of reference for our next external assessment. We are currently finalising the timetable for the completion of this review with Manchester City Council. The results of the external review, together with any action plan, will be shared with the Audit Committee.

4.3.3   During the year, we retained our accreditation to the internationally recognised information security standard ISO27001:2013. Additional, internal quality audits on our ISO processes have been undertaken, most recently in April 2022. As in previous years, only minor issues were identified; actions have been taken to correct these.

4.3.4   It is imperative that the Internal Audit Function continues to provide an effective service and responds to the assurance needs of the organisation. In order to help us to fulfil this and ensure our processes are lean and agile we:

- have undertaken PSIAS external quality reviews at Glasgow and Sheffield City Council's, this enabled us to share practices and develop our own processes in line with best practices; and
- are reviewing current operating processes and assessing them against best in class.

4.4   **Inputs**

4.4.1   The 2021/22 internal audit plan contained 4427 productive days. During the year 3971 days were delivered. The variance between planned and actual days has arisen due to the combination of a variety of reasons. The main contributors were delays in recruiting to an in-year vacancy, an increased level of sickness, and additional proactive work to support the Council.

4.4.2   The actual days delivered in 2021/22 compared to those planned is detailed in the table below:

	21/22				
	Planned		Actual		Variance
Number of Audit Days in the annual plan	**100%**	**4427**	**100%**	**3971**	**(341)**
Main financial systems	16%	705	16%	617	(88)
Business controls assurance	39%	1711	34%	1351	(360)
Investigations	19%	830	15%	589	(241)
Schools (Non-Visits)	1%	42	1%	21	(21)
Schools (Visits)	12%	540	13%	509	(31)
Follow up work	4%	175	5%	180	5
Ad-hoc work	6%	289	11%	456	167
Planning & reporting	3%	130	6%	248	118
City initiatives	0%	5	0%	0	5

4.5 Outputs

4.5.1 During the year we issued 192 final reports, containing 1339 recommendations. For comparison purposes, during 2020/21 we issued 157 final reports containing 899 recommendations.

Reports by Type	20/21	21/22
Internal Audit Reviews	80	89
Follow-up Reviews	41	38
School Visits (including Follow-ups)	27	52
Investigations	9	13
Total	**157**	**192**
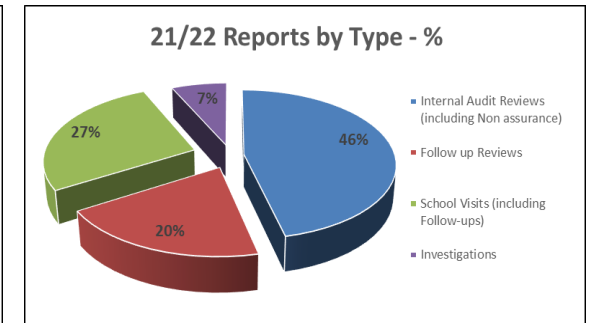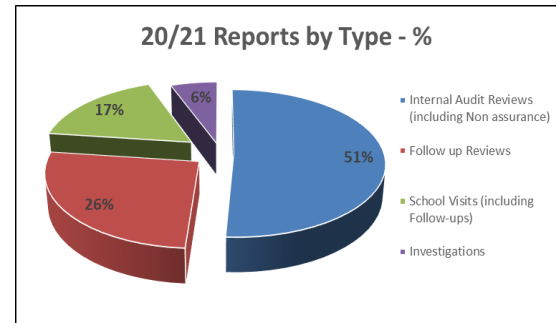
A full list of the audit reports issued, together with risk and assurance ratings, during the year is detailed in Appendix B.

4.5.2 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 (Green) - Non-material issues

2. Medium (Amber) - High importance to the business area the report relates to, requiring prompt management attention. Not of corporate significance

3. High (Red) - 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.

4.5.3 Of the 127 reports (89 Internal Audit and 38 Follow-up reviews) issued during the year, 7 were given a high-level rating, 57 had a medium level rating, 58 had a low rating, and 5 related to non-assurance / progress review work.

Report Risk Rating

- High
- Medium
- Low
- N/A

4% · 5% · 45% · 46%
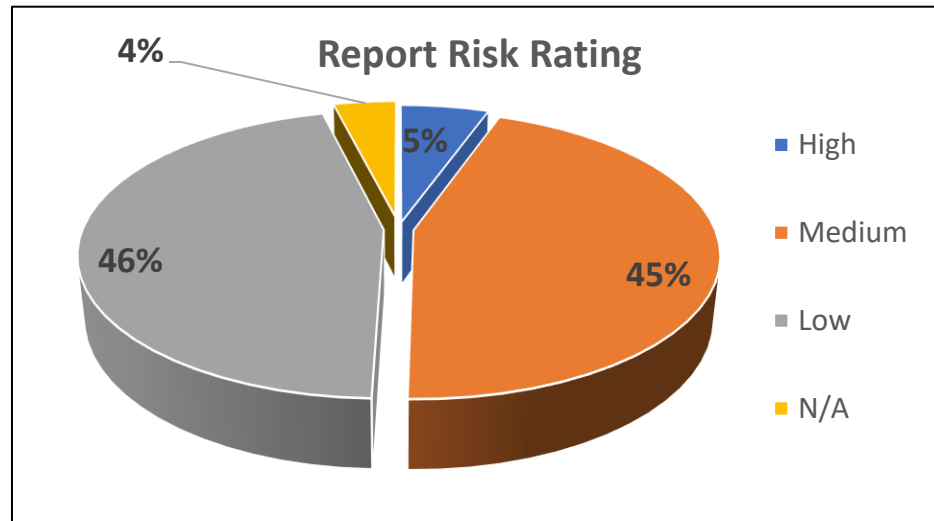
4.5.4 On a monthly basis a list of all final reports issued, together with their risk rating, is sent to Members of the Audit Committee, Cabinet and the Corporate Leadership Team. Under the agreed protocol, Members can request to see a copy of any report.

4.6 **Performance and Customer Feedback**

4.6.1 As at 31st March 2022 we had completed 97% of planned jobs to draft report stage, against an annual target of 95%.

4.6.2 Throughout the year we have sought feedback from our customers by attending management teams and capturing comments via our ISO processes.

4.6.3   Both internal and external customers continue to provide positive feedback on the services provided, examples include:

'…….the improved reporting will aid and improve the governance role…..'.

'…….going beyond the call of duty and without him I can't say the programme would have been as successful as it was……..'

'……..I was very pleased with how well you carried out the audit. Staff really appreciated the way you sought information and shared the findings. You did an excellent job…..'

'….. It's been constructive feedback throughout and a pragmatic approach that made it work well. …..'

'….commented on how in depth and how this session had opened their eyes to the extent that fraud could be committed. I would like you to pass on their comment and say thank from them as it was that interesting that they did not want it to end….'

4.6.4   During the year Post Audit Evaluation Questionnaires (AEQ) where reintroduced. Since September 2021 an AEQ has issued with the final audit report. 14 AEQ's have been returned for work completed during 2021/22, the results are summarised in the table below:

Question	Audit Reviews				School Audits				Investigations				Total	
	No. of Responses	Highest Score	Lowest Score	Avg. Score	No. of Responses	Highest Score	Lowest Score	Avg. Score	No. of Responses	Highest Score	Lowest Score	Avg. Score	No. of Responses	Avg. Score
The audit / investigation was undertaken professionally and objectively?	7	5	4	5	5	5	4	4.6	2	5	5	5	14	4.86
The final report was clear, concise and was issued in a timely manner?	7	5	4	4.9	5	5	4	4.8	2	5	5	5	14	4.88
Recommendations were constructive, insightful and support the management of risk / assist in resolving the issue?	7	5	4	4.7	5	5	4	4.4	2	5	5	5	14	4.64
Overall evaluation of the independent assurance provided / investigation and value to your business area?	7	5	4	4.9	5	5	4	4.4	2	5	4	4.5	14	4.66

Each question is scored: Strongly Agree/Very Good 5, Agree/Good 4, Satisfactory 3, Disagree/poor 2, Strongly Disagree/Very poor 1

4.6.5   The table demonstrates that everyone returning a questionnaire valued the audit or investigation and the support and insight provided.

5. **Corporate Fraud Team**

5.1   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 is established to specifically tackle 'application based' fraud, primarily related to Social Housing and Council Tax. The work of the Team is prioritised on a materiality basis, 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. We are continuing to develop analytical tests designed to detect fraud and error.

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

	2020/21	2021/22
Number of outstanding investigations at the beginning of the year	30	53
Number of fraud referrals received during the year	124	91
Number of cases concluded during the year	101	87
Number of investigations outstanding at the end of the year	53	57

5.3   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. Our investigations were significantly hampered by COVID-19 restrictions and it was not possible to undertake formal interviews during the restrictions. This resulted in a number of investigations having to be placed on hold. All investigation interviews have now recommenced, and we are working to clear the backlog created through the restrictions.

5.4   The team have carried out a number of proactive exercises utilising data analysis to identify potential anomalies as well as co-ordinating the processing of data matches derived from the National Fraud Initiative. The Team have delivered fraud awareness training and have issued various bulletins to raise awareness of fraud. During the year an on-line fraud awareness e-learning module was introduced and shared across the Council.

5.5   The Team have continued to work with directorate staff to implement the anti-fraud strategy for housing. This includes 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. The results achieved by the Team are summarised below:

	2020/21	2021/22
Properties Recovered	14	22
Applications Cancelled	591	548
Council Tax Change	£332,000	£336,703
Housing Benefit Overpayment	£265,000	£394,829

5.6   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.

5.7   Our annual fraud report will be presented to Committee Members at the September meeting.

6.   **The Internal Audit Charter**

6.1   The Public Sector Internal Audit Standards requires the purpose, authority, and responsibility of the internal audit function to be formally defined in an Internal Audit Charter.

6.2   On an annual basis Members are asked to approve the Internal Audit Charter. The Charter for 2022/23 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, together with the rationale behind the annual risk-based audit plan.

7.   Internal Audit Plan 2022/23

7.1   The 2022/23 plan was developed following the completion of a risk assessment and was approved by Members at the March Audit Committee meeting, see Appendix D. The 2022/23 plan contains 4,416 days. This compares to 4,427 in 2021/22.

7.2   The table below shows a summary split of audit days over the different categories of work we undertake, based on our initial risk assessment. The previous year information is given for comparison purposes.

	21/22	21/22 Days	22/23	22/23 Days
Number of Audit Days in the annual plan	**100%**	**4427**	**100%**	**4416**
Main financial systems	16%	705	16%	705
Business controls assurance	39%	1711	39%	1745
Investigations	19%	830	19%	830
Schools (Non-Visits)	1%	42	1%	27
Schools (Visits)	12%	540	12%	540
Follow up work	4%	175	4%	175
Ad-hoc work	6%	289	6%	259
Planning & reporting	3%	130	3%	130
City initiatives	0%	5	0%	5

7.3   The plan has not been subject to any fundemental changes since its agreement at the March Audit Committee meeting.

8. COVID-19 Recovery

8.1 The COVID-19 pandemic has had a significant global impact. During 2021/22 restrictions were slowly and safely lifted across the UK allowings services to be reintroduced. However, the impact of the pandemic will continue to be felt and influence how the Council operates and delivers services to the communities and citizens of Birmingham.

8.2 Envitably the restrictions had a significant impact on the delivery of the 2020/21 audit plan and we had to prioritise the audits in order to support the delivery of an annual opinion on the systems of internal control whilst assisting the Council in responding to the pandemic and continuing to maintain critical services. In line with this global position 2021/22 saw the recovery of audit services; school and investigation visits were reintroduced, formal interviews recommenced, and the limitations in our audit coverage from 2020/21 fed into our risk assessment. We continued to adapt our working practices in line with the Council New Ways of Working Programme whilst seeking to make processes agile and responsive.

9. Grant Certification

9.1 In addition to controls assurance reviews I am required to provide audit certificates, verifying the expenditure incurred, for a number of grants that have been awarded to the Council.

Grant Certificates
Supporting Families
Scambusters
Growth Hub
Public Health COVID Expenditure Grant
Local Transport Capital Grant
Children's Trust NAAS Grant
Boosting Surface Water Project Grant

9.2 I have also been formally appointed as the First Level Controller for a number of European Grants. The First Level Controller is a formally appointed independent role that is required to provide a certification that the expenditure incurred under the programme is eligible and correctly accounted for.

European Grants – First Level Controller
USE-IT Transfer Network
Urban M – Stimulating Innovation through Collaborative Maker Spaces
Urban-Regen-Mix
BETTER – Stimulating regional innovation through better e-government services

Summary of Significant Findings & our work on the Main Financial Systems

1. **High Risk Reports**

    During 2021/22 we issued 7 audit reports (including 2 follow-ups) where we identified a 'high' risk rating for the Council. Brief details of the issues highlighted in these reports are detailed below:

    Commissioning and Payment Monitoring Arrangements – Day 6   **Council Risk Rating:**   **High**   **Assurance: Level 4**   **RAG:** 🟥
    Provision

    Our work identified weaknesses in the arrangements for commissioning day six provision for permanently excluded pupils from flexible learning. We identified a lack of clarity around commissioning arrangements. This lack of clarity is exacerbated by staff who are likely to have been involved in these arrangements having left the Council.

    Recruitment and Selection - Casual Workers   **Council Risk Rating:**   **High**   **Assurance: Level 4**   **RAG:** 🟥
    We have concerns over the lack of recruitment documentation held within employee Digital Personnel Files (DPFs). Whilst this does not mean that the appropriate checks were not completed by managers, we are unable to gain sufficient evidence to prove that they were. People Services have put arrangements in place to strengthen the casual worker's process.

    Housing Repairs - Capital Works   **Council Risk Rating:**   **High**   **Assurance: Level 3**   **RAG:** 🟥
    Whilst we found areas of good practice in the form of weekly contractor meetings, robust financial monitoring, spending within budget and identification, and reporting of work backlogs; decisions on spending priorities were not fully clear. Governance was weakened as regular monitoring reports were not produced and planning of work fragmented.

    Adults Social Care - Safeguarding   **Council Risk Rating:**   **High**   **Assurance: Level 3**   **RAG:** 🟥
    Whilst we have no concerns that safeguarding is prioritised, due to the limited information that is available, we could not provide assurance that the pathways to Adult Social Care, fully meet the requirement of Section 42. There continues to be a high number of safeguarding contacts and

referrals, whilst this is understandable due to a continued element of caution it is affecting resources, and management are having to complete tasks that should be completed by staff. Management have confirmed that action is being taken to implement our recommendations.

Supplier Financial Risk - Embedding the Methodology   **Council Risk Rating: High   Assurance: N/A   RAG:**

Our previous review identified that the Supply Chain Risk Methodology (SCRM) was not fully embedded. Whilst at the time of our follow-up audit little progress had been made in implementing the SCRM, supply chain risk has now been flagged as a strategic risk and a mitigation plan established.

GDPR - Procurement and Contract Management – Follow up   Council Risk Rating: High   Assurance: N/A   RAG:
(2 follow-ups completed)

Whilst progress was now been made in implementing the recommendations from our previous report there was still further work to do, including the delivery of bespoke training for procurement officers and contract managers. We expect the risk to reduce once the training is delivered and the new processes are understood and embedded.

2.   **School Visits**

Despite the challenges faced by schools due to the coronavirus pandemic we were able to complete maintained school audits throughout the 2021/22 financial year. The approach to each audit was agreed with the school involved and included the opportunity for remote auditing and on-site work where appropriate. We continued to work with the Children's and Families Directorate and school colleagues to ensure we deliver robust and added value audits that respond to the financial challenges faced by schools.

The outcomes from the audits completed continued to reflect the general trends from previous years. This is not unexpected as our work focuses on those schools with the greatest challenges, selected through the risk-based plan. Overall, we found general weaknesses and areas for development across financial governance, budget planning, financial management and purchasing.

As part of the audit, Governors and Senior Leadership are asked to complete a survey on their views on financial management within their school and if the Governing Board is fulfilling its core function.   No significant concerns were identified from the surveys. Any minor issues have been appropriately escalated and support provided.

School deficits continue to be one of the key risks facing schools and the Council. The financial challenges are complex, and do differ between the sectors, but broadly they all translate into providing a quality education within budget, often with reducing funds and rising costs. As a result, there is a continued increase in schools relying on carry forward surpluses to achieve balanced budgets along with predicted deficits in future years. Whist it is now a DfE requirement for all schools to agree a deficit repayment plan, some schools are finding this a challenge due to continued financial pressures.

Such pressures/risks are being tracked and actioned by the Children's and Families Directorate Schools in Financial Difficulty Board and its sector subgroups which audit attends and supports. There is an agreed escalation process in place to address the financial challenges faced by each individual school.

Our follow up reviews have been very successful in supporting schools improving their systems and controls, as well as placing a focus on their financial position. However, we have continued to face significant challenges in getting schools to implement our recommendations on a timely manner, moving forward such schools will feature in the escalation process mentioned above.

3.   **Risk Management**

The Council's Risk Management Framework, which sets out the processes for identifying, categorising, monitoring, reporting and mitigating risk at all organisational levels, has been reviewed and updated to ensure focus on the strategic direction of the Council. Strategic risks continue to be reviewed and challenged by the Corporate Leadership Team monthly to ensure they remain complete, relevant, and that mitigating actions are progressing as expected.

The Risk Champions Group, which is made up of representatives from each directorate, continue to progress updates against strategic risk actions plans and ensure that risk management arrangements are embedded at an operational level.

Advice and guidance, together with a supporting e-learning module, are available via the Council's Intranet to help embed risk management as a proactive management tool.

4.   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. During the year we have completed audit reviews across information governance, project Governance, and the implementation of risk management.

As in previous years, we also reviewed the process used to produce and monitor the Annual Governance Statement (AGS) which forms part of the Council's accounts. The AGS 2021/22 identifies seven significant issues:

- Commissioning and Contract Management.
- Companies.
- Major Projects and Transformation.
- Housing.
- Asset Condition and Sufficiency.
- Recruitment and Retention.
- Birmingham SEND Inspection.

5.   Main Financial Systems

The requirement to give an assurance on the adequacy and effectiveness of financial controls is a key responsibility for us. During 2021/22 we reviewed each of the main financial systems. A summary of our work in these areas is detailed below.

Financial Control / Ledger

Our work on financial controls did not identify any fundamental or material issues; we are able to provide assurance that, in general, effective arrangements are in place. However, our work identified some areas that require further development, including addressing ongoing budget sufficiency challenges during 2021/22; reconciliation of control accounts on a regular basis; strengthening journal management, and the need for the accounting procedures to be reviewed and held in one place.

In May 2021, the Council was reassessed against CIPFA's five-star Financial Management Model of best practice and was rated as being three stars.

The Statement of Accounts for the year ending 31st March 2021 is still in draft, as the audit has not yet been completed by the Council's External Auditor. However, based upon their work so far, the External auditor is likely to issue an unqualified opinion. The External Auditor is currently unable to provide an opinion on the accounts due to a national issue with Infrastructure Assets, the CIPFA LASSAAC Local Authority Code Board has announced an urgent consultation on temporary proposals to update the Code of Practice on Local Authority Accounting for Infrastructure Assets.

Within the External Auditor's draft Annual Audit Letter (March 2022), the Council has not been issued with any 'Statutory Recommendations,' however, there are four Key recommendations, two around the service delivery and assurance mechanisms in the Home to School Transport Service, one around the delivery and governance of the SEND services and another on IT issues relating to system access and changes to the General Ledger.

Payroll and Human Resources (HR)

The gross payroll cost has reduced in line with staffing resources. However, the payroll related expenditure still represents a significant cost to the Council. The gross payroll cost for 2021/22 was £780.5m. The payroll system continues to be stable and functioning well.

Processes and controls are in place and operated by HR and Payroll staff to ensure that the payroll is accurate and that employees are paid correctly and on time, and statutory and voluntary deductions accurately made. However, employees and their line managers are also responsible for accurately updating the system via Employee Self-Service and Manager Self-Service. In some cases, this can affect pay e.g. claims for overtime / additional hours worked, reductions in working hours, unpaid leave taken, maternity leave and sickness absences. Whilst the number of directorate overpayments remains low in comparison to the number of payments made, £159.5k, managers still need to ensure all changes are actioned on a prompt basis. Robust procedures are in place to recover any overpayments or agree appropriate payment plans.

Work undertaken on starters and leavers found that in the main that all the correct checks and controls are taking place. However, we were unable to confirm that all appropriate recruitment checks had been completed for casual workers from the documentation held within employee Digital Personnel Files (DPFs). Whilst this does not mean that the appropriate checks were not completed by managers, we are unable to gain sufficient evidence to prove that they were. People Services have put arrangements in place to strengthen the casual worker's process.

COVID-19 Grant

We have continued to provide support in the processing of COVID19 Support grants administered by the Council. Inevitably, a number of potentially false applications have been identified and these are being investigated.

Accounts Payable (AP)

The Accounts Payable (AP) team is responsible for the payment to suppliers for goods and services ordered by directorates and non-Academy schools. Processes and controls are in place to ensure that the council discharges its responsibilities and accurate payments are made to the correct supplier (target 95% of invoices paid within 30 days).

In 2021/22 8,866 vendors were paid, totalling £1.43bn including feeder file transactions. Purchase card spend across the Council was approximately £7.1m. 93.86% of invoices were paid within 30 days of the invoice date.

The processes and procedures reviewed during the year were found to be operating as expected. Procedures and process have been strengthened to detect and prevent fraudulent payment divisions attempts and ensure that only legitimate changes are made to the vendor master data file.

Procurement

Our audit on the Engagement of Consultants and Interims identified non-compliance i.e. a lack of approval by the Commissioning Gateway Panel, non-compliance with procurement governance, and employment status checks (IR35) not always being available.

Our audit on the Commissioning and Payment Monitoring Arrangements for an external provider of day 6 provision identified concerns around the commissioning arrangements. Payment monitoring arrangements were significantly limited due to there being a lack of records maintained by the Council of places commissioned.

Our audit on Waste Management identified that there was spend where there were no contracts in place, and quotes were not being obtained through Find it in Birmingham. A number of contracts had expired but the suppliers continued to be used.

Our third follow-up review of the arrangements in place within the Council's procurement and contract management processes, to ensure compliance with the Data Protection Act 2018, identified that although progress has been made, bespoke training for procuring officers and contract managers has still not been delivered.

Accounts Receivable (AR)

The invoicing and recovery of sundry debt is an essential part of the Council's financial management processes and reliance is placed on services achieving their sundry income targets. The value of sundry debts raised in 2021/22 was £645m (excluding Housing Benefit Overpayment debts). Overdue sundry debts (over 90 days old) as at 04/04/2022 was £50.6m, including Housing Benefit overpayments.

Overall, processes were found to be operating effectively within the areas reviewed, with appropriate systems in place for raising bills and recovering debts. However, there was a need to recommence the debt write off processes, which had been temporarily put on hold whilst revised assurance arrangements were established.

Benefits Service

The Benefit Service is responsible for the administration and payment of Housing Benefit (HB) and Council Tax Support (CTS). Housing benefit payments are returned to the Council through the subsidy grant. The subsidy claim must be accurate as a 1% error could cost the Council £5.22m reduction from Government. The Housing benefit caseload has seen a steady decrease (approximately 21%) over the last 3 three years. This decrease is due to the introduction of Universal Credit which replaces means tested benefits for working age people, one of which is Housing Benefit. Housing Benefit Overpayments (HBOs) have seen a corresponding reduction, reducing from approximately £10.6Mm to £9.6M between March 2021 and March 2022. HBOs for citizens migrating over to Universal Credit can no longer be recovered via Housing Benefit and must be reclaimed through Universal Credit payments. The overall level of Housing Benefit debts as at the end of March was £41.7m.

Council Tax Support (CTS) applications increased at the start of the pandemic from 119,636 in March 2020, to 122,149 in May 2021 and has since reduced with 118,672 in March 2022. COVID-19 has placed increased demand and pressure on the service this has been compounded by the need to administer COVID business grants and social isolation payments, Household support fund and a 200-400% increase in Local Welfare Payment applications

The processes and procedures reviewed were found to be operating as intended.

Council Tax & Non-Domestic Rates

Council Tax is one of the ways the Council receives money to provide local services. The amount paid is based upon the value of the property. In 2021/22 properties with a full year liability were raised totalling £454m with a year-end collection target of £421m (92.75%). The total amount collected as at 31/03/22 was £417.3m (91.92%).

Non-domestic rates, or business rates, collected by Local Authorities are the way that those who occupy a non-domestic property contribute towards the cost of local services. Apart from properties that are exempt from business rates, each has a rateable value (RV) which is set by the Valuation Office Agency. There are various exemptions and reliefs that can be applied to empty properties, charities, and small businesses. In 2021/22 an annual liability of £364.5m was raised against properties with a year-end collection target of £338.1m (92.75%). The total amount collected as at 31/03/22 was £342.5m (93.95%).

The processes and procedures reviewed were generally found to be operating as intended. There are issues identified with the recovery and enforcement processes due to current resources, however a solution is being sought.

Rents

At March 2022 there were 55,776 city tenancies with 18,620 arrears cases (33.38%) including those in receipt of Universal Credit. Rent accounts in receipt of Universal Credit equate to 21,762 accounts totalling approximately £9.798m (55.85% of the total arrears figure). The current tenancy arrears at 31st March 2022 are approximately £17.544m.

Recovery action is targeted based on the level of arrears to help in ensuring that accounts with an arrears balance are actively monitored and acted upon. Court action and evictions have recommenced, although eviction is considered a last resort and all appropriate support is offered right up to and including the date of the eviction.

6. **Information Governance / Technology (IT) Issues**

The New Ways of Working Programme is continued to support an agile workforce using Microsoft Office 365 tools. The IT landscape remains complex and presents significant challenges to ensure it remains secure and is available when required. The Council has continued with its Cyber security programme and is constantly strengthening information governance arrangements through the Information Assurance Board.

The Council has undertaken several major IT change programmes including refreshing the technical infrastructure, implementation of a new Social Care system, and has recently gone live with a new Finance and HR system – 1B. The implementation of 1B has not been without its challenges, hyper care arrangements are currently in place to work through the process and system issues that are currently being encountered.

Information Governance processes continue to be aligned to the Information Assurance Maturity Model (IAMM) and are being embedded across the organisation with the assistance of the relevant Information Asset Owners.

Key findings from our work are summarised below:

- Performance in responding to Freedom of Information and Subject Access Requests continues to be challenging.
- Compliance with the Data Classification policy is not readily evident.
- There is a need to continue to embed Data Protection Impact Assessments and refresh the information asset register.
- Data processing and sharing agreements need to be reviewed on a regular basis
- IT applications continue to be managed on an effective basis but there is a need to ensure that movers and leavers are processed on a timely basis
- Information Security and IT Acceptable Usage policies are in place. The Technical Security Policy is being taken forward as a component of the Cyber Security Programme

As part of their opinion work the Council's External Auditors identified several concerns surrounding the previous Finance system which were addressed at the time. A project to ensure similar issue do not exist in the replacement system is currently underway.

Final Reports Issued During 2021/22

Audit Reviews (89 Reports):

Key to Council priorities and nature of assurance provided.

Outcomes
1. Birmingham is an entrepreneurial city to learn, work and invest in.
2. Birmingham is an aspirational city to grow up in.
3. Birmingham is a fulfilling city to age well in.
4. Birmingham is a great city to live in.
5. Birmingham residents gain the maximum benefit from hosting the Commonwealth Games.
6. Birmingham is a city that takes a leading role in tackling climate change.

Assurance Type
7. Good Governance.
8. Strategic Risk.
9. Financial Assurance.
10. Business Control Assurance.

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9	10.
Commissioning and Payment Monitoring Arrangements – Day 6 Provision	High	Level 4	Red		✔	✔	✔						✔
Recruitment and Selection - Casual Workers	High	Level 4	Red	✔								✔	✔
Housing Repairs - Capital Works	High	Level 3	Red		✔	✔	✔					✔	✔
Adults Social Care - Safeguarding	High	Level 3	Red			✔	✔						✔
The Active Wellbeing Society - Service Changes During the Pandemic	Medium	Level 4	Amber		✔	✔					✔		✔
Waste Management Procurement Compliance	Medium	Level 4	Amber				✔			✔		✔	
HMO Licensing	Medium	Level 4	Amber				✔			✔			✔
Assessment and Support Planning	Medium	Level 3	Amber		✔	✔						✔	✔
Information Governance - Data Loss Prevention	Medium	Level 3	Amber	✔	✔	✔	✔	✔	✔				✔
Vat Improvement Plan	Medium	Level 3	Amber	✔								✔	
Financial Control Review	Medium	Level 3	Amber	✔								✔	
Waste Management Services - Independent Review	Medium	Level 3	Amber				✔					✔	✔
Ethics	Medium	Level 3	Amber	✔						✔			
Financial Savings Plan	Medium	Level 3	Amber	✔								✔	
Implementation of Corporate DBS Policy	Medium	Level 3	Amber		✔	✔	✔						✔
Direct Payments - Embedding Operational Practice (Stage Two)	Medium	Level 3	Amber		✔	✔							✔

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9	10.
Accounts Payable - Vendor Changes	Medium	Level 3		✓								✓	
IT Project Governance	Medium	Level 3		✓						✓			✓
GDPR Compliance - Education and Skills Directorate	Medium	Level 3			✓	✓							✓
Accounting for HRA Assets	Medium	Level 3					✓					✓	✓
Information Governance - GDPR Compliance City Ops	Medium	Level 3			✓	✓							✓
Funeral and Property Protection	Medium	Level 3					✓						✓
Landscape Construction Framework	Medium	Level 3			✓	✓	✓			✓			✓
Financial Management - CIPFA Budget Sufficiency Exercise	Medium	Level 3		✓								✓	
Eclipse Project Assurance Review Stage 1	Medium	Level 3			✓	✓							✓
Kenrick Centre	Medium	Level 3					✓			✓	✓	✓	✓
Housing Visiting Programme	Medium	Level 3					✓						✓
Council Tax / NNDR Suppressions	Medium	Level 3		✓	✓	✓	✓					✓	✓
Contract Monitoring - Governance & Scrutiny, BCT	Medium	Level 3			✓					✓		✓	✓
Information Governance - GDPR Compliance Article 39	Medium	Level 3		✓									✓
Transitions to Adulthood	Medium	Level 3			✓	✓							✓
Voids and Lettings	Medium	Level 3					✓						✓
Commonwealth Games - Volunteer Programme	Medium	Level 3						✓					✓
Online Service Delivery - Intranet	Medium	Level 3		✓	✓	✓	✓						✓
Rent Service - Current and Former tenancy arrears	Medium	Level 2					✓					✓	✓
Revenues Payments and Posting Delays	Medium	Level 2		✓			✓					✓	✓
IT Procurement	Medium	Level 2		✓	✓	✓	✓			✓		✓	✓
IT Projects - Capita Retained Services	Medium	Level 2		✓	✓	✓	✓						✓
IT Projects - Application Platform Modernisation (APM)	Medium	Level 2		✓	✓	✓	✓						✓
Homelessness - HOC Prevention Model	Medium	Level 2					✓						✓
Hospital Discharges, Pathway 2, Rehabilitation Beds	Medium	Level 2			✓	✓							✓
RBIS	Medium	Level 2			✓	✓	✓			✓		✓	✓
IT Governance	Medium	Level 2		✓	✓	✓	✓			✓			✓
Debt Write Off Compliance	Medium	Level 2		✓	✓	✓	✓					✓	
Eclipse Project Assurance Review Stage 2	Medium	Level 2			✓	✓							✓

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9	10.
CareFirst IT Review	Medium	Level 2	Amber		✓	✓	✓						✓
Pupil Premium Free School Meals Data Issues	Low	Level 3	Green		✓	✓						✓	✓
Public Health Procurement	Low	Level 3	Green		✓	✓	✓						✓
Management of Reservoirs	Low	Level 3	Green				✓						✓
City Operations - Section 106 Funding	Low	Level 3	Green				✓					✓	✓
Supplier Relief - Leisure Centres	Low	Level 3	Green		✓								✓
Financial Management - Control Account	Low	Level 3	Green	✓	✓	✓	✓	✓	✓	✓		✓	
Public Health - Safeguarding, Attendance at Statutory Death Panels	Low	Level 3	Green		✓	✓	✓						✓
Schools Financial Value Standard	Low	Level 3	Green		✓	✓							✓
IT Policies	Low	Level 2	Green	✓						✓			✓
CareFirst IT Review	Low	Level 2	Green		✓	✓	✓						✓
Perry Barr Regeneration Scheme - Project and Contract Management	Low	Level 2	Green		✓	✓	✓			✓		✓	✓
IT Applications - Decommissioning Applications	Low	Level 2	Green	✓									✓
Accounts Receivable - Instalment Plans	Low	Level 2	Green		✓	✓	✓					✓	✓
Corporate Payroll Temporary Changes to Contracts Allowances	Low	Level 2	Green	✓								✓	
Accounts Payable - Fuel Cards	Low	Level 2	Green	✓								✓	
SAP Security	Low	Level 2	Green		✓	✓	✓			✓		✓	
Flood Risk Management	Low	Level 2	Green				✓						✓
Corporate Payroll - Starters & Leavers	Low	Level 2	Green	✓								✓	
Benefit Service - Procedures	Low	Level 2	Green		✓	✓				✓		✓	✓
Health and Safety Community Libraries - Controls Assurance	Low	Level 2	Green		✓	✓							✓
Fixed Assets IT Systems	Low	Level 2	Green	✓								✓	
Birmingham City Laboratories	Low	Level 2	Green		✓	✓	✓			✓			✓
Customer Journey - Delivery of Outcomes	Low	Level 2	Green		✓	✓	✓						✓
Council Tax - Property Completion Notices	Low	Level 2	Green				✓					✓	
Accounts Payable - Directorate responses to PI Reports	Low	Level 2	Green	✓								✓	
Accounts Payable - Vendor Master Data	Low	Level 2	Green	✓								✓	
Commissioning Equipment Loan Contract	Low	Level 2	Green		✓	✓							✓
Northgate Housing - IT Controls	Low	Level 2	Green				✓			✓			✓

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9	10.
Data Centres	Low	Level 2	🟩		✓	✓	✓	✓	✓				✓
Accounts Receivable - Employee related debts, current and former employees	Low	Level 2	🟩		✓	✓	✓					✓	
Public Health - Governance, Supporting Arrangements for Health and Wellbeing Boards	Low	Level 2	🟩		✓	✓	✓						✓
Rents Service - Housing Stock Analyse	Low	Level 2	🟩				✓					✓	✓
SAP Security	Low	Level 2	🟩		✓	✓	✓						
Corporate Payroll - Recovery of Overpayments for Leavers	Low	Level 1	🟩	✓								✓	
Housing Benefit Accuracy Awards (DWP)	Low	Level 1	🟩		✓	✓	✓					✓	✓
Accounts Payable - Payments over £75k	Low	Level 1	🟩	✓								✓	
Accounts Payable - Winshuttle Payments	Low	Level 1	🟩	✓								✓	
Accounts Receivable - Invoices raised within 10 days of service rendered	Low	Level 1	🟩	✓								✓	
Commonwealth games Legacy Programme Ward Funding	Low	Level 1	🟩					✓		✓		✓	✓
Benefit Service - Social Isolation Payments	Low	Level 1	🟩		✓	✓	✓					✓	
Account Receivable - Debt Collection Agencies (DCAs)	Low	Level 1	🟩	✓								✓	
Corporate Payroll - Reconciliations gross to net pay	Low	Level 1	🟩	✓								✓	
Revenues - Printing and Posting Reconciliations	Low	Level 1	🟩		✓	✓	✓					✓	✓

Follow Up Reports (33 Reports, 5 Progress Reports):

Title	Risk Rating Council	RAG
GDPR - Procurement and Contract Management Second Follow-up	High	🟥
Supplier Financial Risk - Embedding the Methodology	High	🟥
GDPR - Procurement and Contract Management Follow-up	High	🟥
Information Assets Register Follow Up	Medium	🟧
Information Governance - Data Privacy Impact Assessments	Medium	🟧

Title	Risk Rating Council	RAG
Anti-Virus - Malware	Medium	🟧
Information Governance - Remote Working GDPR Compliance and Security	Medium	🟧
Information Governance - Article 33 Breach Notification	Medium	🟧
Use of IT Shared Drives	Medium	🟧
Direct Payments - Progress of Reviews in Excess of 12 Months Plus	Medium	🟧
Information Governance - Data Loss Prevention	Medium	🟧
Public Services Network Follow Up	Medium	🟧
Commercial Activities - CityServe	Medium	🟧
Section 117	Medium	🟧
Contract Extensions	Medium	🟧
Non-Treasury Investments	Medium	🟧
User Account Management - SLAM Process Follow Up	Medium	🟧
The Birmingham and Solihull Youth Promise Plus Funding Programme Management Arrangements Follow Up	Medium	🟧
Northgate Data Quality	Low	🟩
Corporate Payroll - IR35 Compliance	Low	🟩
IT Governance - Housing Repairs	Low	🟩
IT Applications - Impulse and CV Hub Follow Up	Low	🟩
Logotech Treasury Management System	Low	🟩
Information Governance - Access to Information	Low	🟩
Advantage Impact	Low	🟩
Register of Electors Online	Low	🟩
Abritas	Low	🟩
IT Applications - Civica Pay PIR	Low	🟩
IT Policies Follow Up	Low	🟩
IT Applications - Decommissioning Follow Up	Low	🟩
Council Tax - Payment and Posting Delays	Low	🟩
Shelforce - Procurement	Low	🟩
City wide Follow Up	Low	🟩
Enablement Second Progress Review		🟫
In-Year School Admission Progress Update		🟫
Revenues and Benefits Recruitment		🟫

Title	Risk Rating Council	RAG
Assessment and Support Planning - 1st Progress Review		
Assessment and Support Planning Progress Review		

Investigation Reports (13 Reports)

School Visits (34 Reports, 4 Follow-up Reports, 14 Progress Reports)

Internal Audit Charter 2022/23

1. **Introduction**

1.1   This charter sets out Birmingham Audit's:

- purpose, authority, and responsibilities;
- establishes Birmingham Audit's position within the organisation, including reporting relationships with the 'board';
- covers the arrangements for appropriate resourcing;
- defines the scope 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 Birmingham Audit (which are in accordance with the mandatory Public Sector Internal Audit Standards (PSIAS)). The detailed actions to deliver the charter are contained within the Birmingham Audit Service Plan.

Notes:

1. *The term the 'board', is defined as the Council's Audit Committee.*

2. *Statutory officer roles with regards to Internal Audit:*

   Chief Executive - ensure there is an open, honest, transparent, and accountable culture in operation within the Council and are records and explanations are available as and when required by Internal Audit.

   Director of Council Management (Section 151 Officer) - is responsible for ensuring the sound financial administration of the Council and effective systems of Internal Audit. They are also responsible for deciding on the action to be taken to investigate suspected financial irregularities, including referring the matter to the Police.

   Monitoring Officer - has a specific duty to ensure that the Council, its officers, and its Elected Members, maintain the highest standards of conduct in all they do.

2.   Purpose, Authority & Responsibilities

2.1   Birmingham Audit's 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.

Birmingham Audit's helps the Council meet high standards of Service delivery, conduct and governance and assist in driving down the levels of fraud which achieved by examining, evaluating and reporting on the effective use of resources, reviewing the whole system of internal control and implementation of the intelligence led investigations regime.

2.2   In accordance with the Council's Constitution, Part D – D1 Financial Regulations, section FC4 Financial Governance directors must:

"(v) Providing open and unfettered access to internal and external auditors.

(vi) Implementing agreed internal audit recommendations within agreed timescales."

2.3   Birmingham Audit's 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 Birmingham Audit 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; and

- 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   Birmingham Audit will remain independent of the areas audited to ensure that auditors perform their duties impartially, providing effective professional judgements and recommendations. Where appropriate audit staff will be rotated to avoid and conflict of interests. Birmingham Audit 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 Birmingham Audit lies with management. Management can either accept the advice and implement recommendations or reject them. Any advice, guidance or recommendations made by Birmingham Audit will not prejudice the right to review the relevant policies, procedures, controls, and operations at a later date.

3.3   The Assistant Director Audit and Risk Management will report the results of audit work in accordance with the Birmingham Audit Protocol.

4. Resourcing

4.1   The service will be delivered to professional standards by appropriately qualified and skilled staff. Birmingham Audit has achieved the ISO27001:2013 Information Security Standard. The Information Security Standard is subject to regular external review.

4.2   During 2022/23 we will continue to seek more efficient and effective ways to deliver the audit service, provide assurance to Members, and help identify new ways of working that will bring about service improvements and deliver efficiencies. The Audit data warehouse and data analysis will 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 other's work where appropriate.

4.5   If the Assistant Director Audit and Risk Management, 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 Birmingham Audit, or prejudice the ability of Birmingham Audit 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 the Council. 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 Assistant Director Audit and Risk Management will take account of the Council's assurance and monitoring mechanisms, including risk management arrangements, for achieving its objectives.

5.3   Birmingham Audit 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 Birmingham Audit will take this into account. Where the results indicate that insufficient work has been done then Birmingham Audit may undertake a separate review.

5.4   The scope of audit work extends to services provided through partnership arrangements. The Assistant Director Audit and Risk Management will decide, in consultation with all parties, whether Birmingham Audit conducts the work to derive the required assurance or rely on the assurances provided by other auditors. Where necessary, the Assistant Director Audit and Risk Management will agree appropriate access rights to obtain the necessary assurances.

5.5   Birmingham Audit will not undertake tasks which are likely to compromise its independence, internal control functions, or certification processes.

5.6   Birmingham Audit will participate and contribute to Council and Directorate policy development as required through attendance at relevant events and working groups.

5.7   <u>Other Work</u>

Where appropriate resources exist, Birmingham Audit will make provision within the plan for the review of key systems or key services provided by:

- the Council on behalf of other organisations; and

- others on behalf of the Council. In order to achieve this Birmingham Audit will require access to partner records, systems, and staff. This access should form part of any partnership contract between the Council and the partner.

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

5.8   Fraud & Corruption

In accordance with the Birmingham City Council Constitution, Part D – D1 Financial Regulations, FC6 Delivery and Adherence to Core Strategies, directors must:

"(i) Directors will maintain appropriate systems to enable the Director of Council Management to collect information on the adherence to core strategies.

The Council core strategies that support Sound Financial Management including:

(i)   Anti-Fraud & Corruption Strategy
(ii)   Anti - Money Laundering Policy
(iii)   Whistle-blowing Strategy
(iv)   Risk Management Strategy
(v)   Insurance Strategy
(vi)   Contracts and Procurement Regulations"

Birmingham Audit will assist managers in minimising the scope for fraud by evaluating the Council's systems of internal financial control and reporting thereon. Where irregularities are suspected, Birmingham Audit 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 Birmingham Audit will adhere to all Council policies.

Where Directorates require Birmingham Audit to attend disciplinary hearings as a management witness, sufficient notice, i.e.: 10 working days, should be given.

6.   Avoiding Conflicts of Interest

6.1   Birmingham Audit staff will maintain an impartial, unbiased attitude to their work and will avoid conflicts of interest.

6.2   Birmingham Audit will maintain a register of interests for Audit staff. Any interests declared will be considered when planning and delivering work.

6.3   Where appropriate audit staff will be rotated to avoid any conflict of interests.

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 bought to their attention; and

- 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 Annual / half year update reports will be produced. The annual report will 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. Birmingham Audit Business Plan – 2022/23

8.1 The Business Plan sets out Birmingham Audits vision to be a highly respected and valued team for insight, analysis, and advice.

8.2 Objectives:

- Deliver an internal audit service that meets professional and mandatory standards and delivers an informed and evidenced assurance to the Council.
- Deliver an effective counter fraud service to prevent, detect and deter fraud and error and to assist law enforcement agencies through the provision of intelligence.
- Enhance awareness and management of risk across the Council by embedding the risk management framework and co-ordinating the production of the Strategic Risk Register.
- Add value and insight by understanding the risks and challenges that we, and our clients face and identifying opportunities to deliver improvements for the citizens of Birmingham.

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 Birmingham Audit working in partnership with a number of external bodies. The Assistant Director Audit and Risk Management 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
- GDPR/Data Protection Act 2018
- 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
- Relevant IIA guidance

- Information Security - BS EN ISO27001:2013

9.3   Birmingham Audit reports to the Section 151 Officer under the Local Government Act 2002. The legislative drivers for internal audit and counter fraud continue to evolve.

9.4   The Council has adopted the CIPFA / SOLACE code of corporate governance. This code together with the Statement of Recommended Practice (SORP) 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 Framework - Delivering Good Governance in Local Government. This means that the Chief Executive and Leader 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 in established 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 Birmingham Audit 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; and

- school activities.

10.   The Annual Audit Plan

10.1   We will contribute to protecting and enhancing organisational value, supporting the Council's aim to make a positive difference, every day, to people's lives.   We will provide an enterprise wide perspective when carrying out audit work, constantly considering the challenging financial situation, and ensuring our planning process is future focused, adds value and insight, and improves organisational operations. We will continue to provide independent assurance and advice that supports healthy transparency in the risk management process. We will place emphasis on the responsibility taken by management to recognise their key risks and take ownership and accountability to manage these effectively, understanding risk appetite to properly accept / mitigate risks to achieve the best outcome.

10.2   The audit plan for 2022/23 has been compiled based on a number of factors, i.e.:

- 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, i.e.: 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 year's internal audit work and other assurance gained regarding the control environment.

10.3   All the risks contained within the Strategic Risk Register are included within the Council's Assurance Framework, 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.

10.4   Following guidance from the External Auditors each of the systems they designate as 'main financial systems' will feature in the audit plan, unless otherwise directed.

10.5   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 National Fraud Initiative (NFI). And ongoing development of anti-fraud database.

10.6   Follow up audits will be undertaken in accordance with the agreed policy.

10.7   Consultancy work will be undertaken within the limitations of existing resources and where it does not introduce a conflict of interest.

Consultancy work is defined as:

"The provision of objective advice and assistance relating to the strategy, structure, management and operations of an organisation in pursuit of its long-term purposes and objectives."

Consulting services may include but are not limited to:

- facilitation of workshops;
- assistance in the completion of financial returns; and
- representation on Boards etc.

The purpose, scope, and approach for each piece of consultancy work will be agreed prior to commencement of the work.

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 incur the cost e.g. grant claim certification.

Internal Audit Plan 2022/23

	Days	Total
Financial Controls / System (including computer audits where appropriate)		
Accounts Payable	50	
Accounts Receivable	50	
Payroll/HR	50	
Main Accounting	50	
Asset Management	50	
Procurement, Contract Audit and PFI	140	
Cash Income / Cashiers	30	
Direct Payments	30	
Carefirst / Eclipse	30	
Benefits	50	
Housing Rents	25	
Revenue (Council Tax and NNDR)	60	
Audit Letter	5	
IT Related Financial Systems Work (including Oracle controls)	85	**705**
Business Controls Assurance		
Estimated Work in Progress b/fwd. from 2021/22	55	
Data Analysis	200	
Corporate Risk Management Facilitation	50	
Chargeable Work - Acivico	40	
Chargeable Work – Grant Certification	80	
IT Related Systems and Processes	360	**785**
<u>Adults Social Care</u>		
Disabled Facilities Grant (DFG)	20	
Early Intervention Community Team	20	
Assessment & Support Planning	20	
Commissioning	20	
Liberty Protection Standard	10	
Placements	20	
Enablement	15	
Day Centres	15	**140**
<u>City Housing</u>		
Homelessness	15	
Tenant Management Organisations	20	
Dispersed Temp Accom Properties	20	
Tenant Engagement – Response to TPAS Review	15	
Housing Repairs – Contract Compliance / Assurance (funded through HRA)	180	**250**
<u>City Operations</u>		
Resilience	20	
Environmental Health	15	
Leisure Facilities Managed Internally	20	

	Days	Total
Leisure Facilities External Management Arrangements	20	
Markets	20	
Grounds Maintenance	20	
Waste Management	25	
Fleet Management	20	**160**
Council Management		
Accountable Body	30	
Project Management	30	
Governance	10	
Corporate Performance Indicators	10	
Ethics	10	
Delivery Plan / Improvement Agenda	20	
Commercial Strategy / Activities	10	
Risk Management	10	
Self-Assessment - AGS Process	10	
Acivico Contract Monitoring	10	
Customer Services	10	**160**
Children and Families		
Safeguarding Corporate Overview	30	
Home to School Transport	25	
Directorate Contract Management	20	
SEND – Sufficiency Strategy	15	
SEND – Ofsted Improvement Plan	10	
Children Not in Education	10	
Birmingham Children's Trust – Contract Management	20	
Safeguarding & Development – BCSB	20	
Directorate Compliance - Corporate DBS Process	15	
Increasing Capacity in Mainstream Education for SEND Children	15	
EHCPs – Monitoring & Managing Completion	15	**195**
Place, Prosperity and Sustainability		
Air Quality / Climate Change	10	**10**
Strategy, Equalities and Partnerships		
Public Health	30	
Equality and Cohesion	15	**45**
Investigations		
Reactive investigations	430	
Proactive work	200	
Fraud Awareness	200	**830**
Schools - Non-Visits		

	Days	Total
Admissions and Appeals	15	
Responding to the Challenge of Improving Financial Management in Schools	12	**27**
Schools – Visits	540	**540**
Follow Up Work		**175**
Ad Hoc Work / Contingency		**259**
Planning and Reporting		**130**
City Initiatives		**5**
TOTAL		**4416**