



Coventry City Council

## Public report

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**Report to**

Audit and Procurement Committee

22<sup>nd</sup> June 2015

**Name of Cabinet Member:**

Cabinet Member for Strategic Finance & Resources – Councillor Damian Gannon

**Director approving submission of the report:**

Executive Director of Resources

**Ward(s) affected:**

City Wide

**Title:**

Internal Audit Annual Report 2014-15

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**Is this a key decision?**

No

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**Executive summary:**

This report to the Audit and Procurement Committee has two purposes:

- To summarise the Council's Internal Audit activity for the period April 2014 to March 2015 against the agreed Audit Plan for 2014-15.
- To provide the Audit and Procurement Committee with the Internal Audit and Risk Manager's opinion on the overall adequacy and effectiveness of Coventry City Council's internal control environment for the financial year 2014-15 (as documented in section 2.3 of this report).

**Recommendations:**

Audit and Procurement Committee is recommended to note and consider:

1. The performance of Internal Audit against the Audit Plan for 2014-15.
2. The summary findings of key audit reviews (attached at appendix two) that have not already been reported to Audit and Procurement Committee during municipal year 2014-15 and

which are relevant to the opinion on the overall adequacy and effectiveness of Coventry City Council's internal control environment.

3. The opinion of the Internal Audit and Risk Manager on the overall adequacy and effectiveness of Coventry City Council's internal control environment.

**List of Appendices included:**

Appendix One - Internal Audit Reviews Completed in 2014-15

Appendix Two - Summary findings from key audit reports

**Other useful background papers:**

Half Year Internal Audit Progress Report 2014-15

<http://internaldemocraticservices.coventry.gov.uk/ieListDocuments.aspx?CId=553&MId=10533&Ver=4>

Internal Audit Plan 2014-15 – Quarter Three Progress Report

<http://internaldemocraticservices.coventry.gov.uk/ieListDocuments.aspx?CId=553&MId=10224&Ver=4>

**Has it or will it be considered by scrutiny?**

No other scrutiny consideration other than the Audit and Procurement Committee.

**Has it, or will it be considered by any other council committee, advisory panel or other body?**

No

**Will this report go to Council?**

No

**Report title:**

Internal Audit Annual Report 2014-15

**1. Context (or background)**

1.1 The Audit and Procurement Committee approved the Council's Internal Audit Plan for 2014-15 at its meeting on the 18<sup>th</sup> August 2014. During the last financial year, the Committee has received progress reports summarising completed audit activity in October 2014 and February 2015.

1.2 This report details the performance of the Internal Audit and Risk Service against the Plan for 2014-15, which is presented in order for the Audit and Procurement Committee to discharge its responsibility, as reflected in its term of reference - *“To consider the Head of Internal Audit's Annual Report and Opinion, and a summary of internal audit activities (actual and proposed) and the level of assurance given within the Annual Governance Statement incorporated in the Annual Accounts”*.

1.3 The report is split into the following sections:

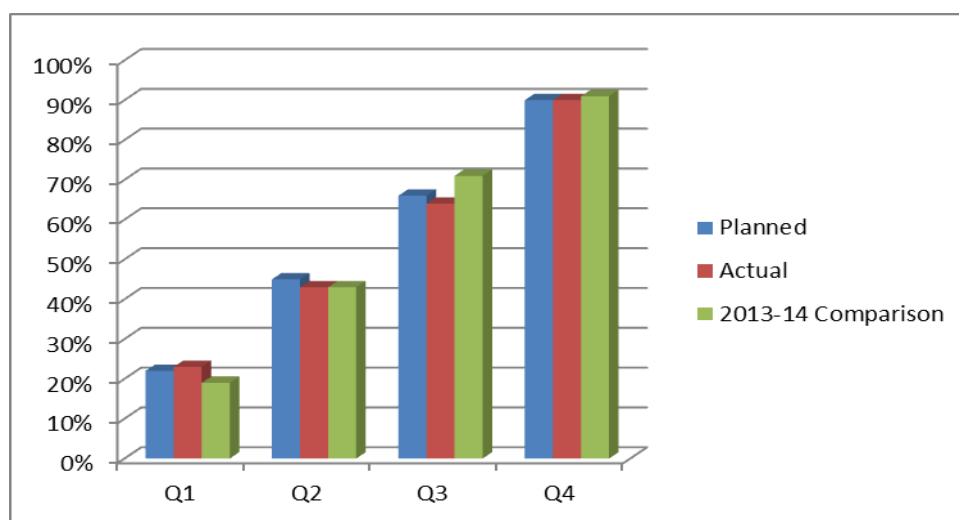
- Assessment of the performance of the Internal Audit Service against its key targets.
- A summary of the audit activity in 2014-15, and highlighting issues that have not been reported to the Audit and Procurement Committee previously, and are relevant to the overall opinion provided in section 2.3.
- The Internal Audit and Risk Manager's opinion on the overall adequacy and effectiveness of Coventry City Council's internal control environment.

**2. Options considered and recommended proposal**

**2.1 Performance of the Internal Audit Service**

2.1.1 The key target for the Internal Audit and Risk Service is to complete 90% of its agreed work plan by the 31<sup>st</sup> March 2015. The chart below shows that the Service met this target.

**Chart One: Performance of Internal Audit 2014-15**



2.1.2 It needs to be acknowledged that this performance is against a revised plan that was agreed by the Audit and Procurement Committee in February 2015. The revisions stemmed from two members of the Internal Audit and Risk Service leaving the Council in November / December 2014 and the decision to manage the impact of this in the short term through amending the 2014-15 audit plan to take account of planned audits being postponed / delayed and where days allocated in the plan were not reflective of need.

2.1.3 In addition to the delivery of the Plan, the Service has a number of other key performance indicators (KPIs) which underpin its delivery. These KPIs are aimed at ensuring that the audit process is completed on a timely basis. The table below details the performance of Internal Audit for 2014-15, compared with performance in 2013-14.

**Table One: KPIs for the Internal Audit Service**

<b>Performance Measure</b>	<b>Target</b>	<b>Performance 2014-15</b>	<b>Performance 2013-14</b>
<b>Planned Days Delivered</b> (Revised)	100%	100%	96%
<b>Productive Time of Team</b> (% of work time spent on audit work)	90%	89%	87.5%
<b>Draft Report to Deadline</b> (Draft issued in line with date agreed)	80%	79%	75%
<b>Final Report to Deadline</b> (Final issued within 4 weeks of draft)	80%	88%	92%
<b>Audits Delivered within Budget Days</b>	80%	74%	75%

Whilst in comparison with 2013-14, the overall performance across the range of indicators has generally improved, there are still variations in performance against the targets for the five KPIs highlighted above. This needs to be considered in the context of the greater expectations that the Service has set around completing audits on a timelier basis, with fewer audit days used.

## 2.2 Audit Activity 2014-15

2.2.1 Appendix One details the audit reviews that have been carried out in the financial year 2014-15 along with the level of assurance provided. Table two below provides definitions to support the level of assurance applied to audit reviews carried out by the Service.

**Table Two: Definitions of Assurance Levels**

<b>Assurance Opinion</b>	<b>What does this mean?</b>
<b>Significant</b>	There is an appropriate level of control for managing all the significant inherent risks within the system. Testing shows that the controls are being applied consistently and system objectives are being achieved efficiently, effectively and economically.
<b>Moderate</b>	There are generally appropriate levels of control for managing the majority of the significant inherent risks within the system. Some control failings have been identified from the systems evaluation and testing that need to be corrected. The control failings do not put at risk achievement of the system's objectives.
<b>Limited</b>	There are weaknesses in the level of control for managing the significant inherent risks within the system. A number of control failings have been identified from the systems evaluation and testing. These failings show that the system is clearly at risk of not being able to meet its objectives and significant improvements are required to improve the adequacy and effectiveness of control.
<b>No</b>	There are major, fundamental weaknesses in the level of control for managing the significant inherent risks within the system. The weaknesses identified from the systems evaluation and testing are such that the system is open to substantial and significant error or abuse and is not capable of meeting its objectives.

2.2.2 **Other** – A summary of the findings of key audits that have not already been reported to the Committee during municipal year 2014 are included at appendix two. In all cases, the relevant managers have agreed to address the issues raised in line with the timescale stated. These reviews will be followed up in due course and the outcome reported to the Audit and Procurement Committee.

2.2.3 **Follow up of Disclosures made in the Internal Audit Annual Report 2013-14** – In the previous annual report, the Internal Audit and Risk Manager identified a number of areas where he believed significant control improvements were required. An update on each of these areas is provided below:

- **Gaining assurance that all functionality available through the new Agresso financial system is both utilised and embedded in practice** – This disclosure was based primarily on the findings of the 2013-14 review of Accounts Receivable but also acknowledged that the Agresso System had been in use for a relatively short period of time and that some system functionality had not been fully implemented. Three reviews of the Agresso System have taken place during 2014-15, namely:

- IT Application Review – Moderate Assurance

- Accounts Payable – Significant Assurance
  - Accounts Receivable – Moderate Assurance. A summary of the key findings of this review are included at appendix two. Whilst the review has identified that further improvements are still required, action has been taken to address the key concerns highlighted in the 2013-14 audit.
- **Ensuring that any potential impacts that the transfer of the Benefit Fraud Team to the Department for Work and Pensions (DWP) in March 2015 has on fraud arrangements in the Council are identified and managed** – The impact was partly offset by the fact that responsibility in legislation for investigating benefit fraud has moved from local authorities to the DWP. However, in light of the Council's on-going responsibility for Council Tax, a team of two was set up in March 2015 primarily to respond to the risk of fraud and error in this area (e.g. Council Tax support, exemptions and discounts).
  - **Robust processes and procedures exist to minimise the risk of fraud and error in relation to the award of council tax discounts and exemptions** – The Audit and Procurement Committee received an update on this issue in February 2015 where it was highlighted that in addition to existing processes within Council Tax, an on-going programme of proactive reviews will be undertaken by the Fraud and Error Team mentioned above.

As a consequence, with the exception of the area of council tax discounts and exemptions, the other disclosures made in the Internal Audit Annual Report 2013-14 are no longer viewed as requiring significant control improvements.

## 2.3 **Annual Report - Opinion on the Overall Adequacy and Effectiveness of Coventry City Council's Internal Control Environment**

2.3.1 The Public Sector Internal Audit Standards (PSIAS) highlights that a key responsibility of Internal Audit is to provide an objective evaluation of, and assurance on, the effectiveness of the organisation's risk management, control and governance arrangements. It requires that the annual internal audit opinion provided by the Internal Audit and Risk Manager is a key element of the framework of assurance that informs the Annual Governance Statement.

2.3.2 Given the above, an Internal Audit Charter was approved in April 2013, requiring the Internal Audit Annual Report to include the following information:

- An opinion on the overall adequacy and effectiveness of Coventry City Council's internal control environment.
- Disclosure of any qualifications to that opinion, together with the reason for the qualification.
- Present a summary of the audit work undertaken to formulate the opinion, including reliance placed on the work of other assurance bodies.
- Draw to the attention of the Audit and Procurement Committee any issues particularly relevant to the preparation of the Annual Governance Statement.

2.3.3 **Audit Opinion / Disclosures** – In producing the opinion, it is appropriate that the Council's approach to internal control is explicitly set out. In the view of the Internal Audit and Risk Manager, this has evolved over the last few years and is now based upon a more fluid, but

risk based approach, which has moved from central oversight and places emphasis on management ensuring that activity within services and directorates they are responsible for, comply with Council policies and procedures.

This approach has been supported by the Internal Audit and Risk Manager on the basis that:

- Control enforcement is only necessary where officers consistently fail to follow agreed procedures. The experience of the Internal Audit and Risk Manager is that whilst non-compliance occurs across the Council, this is at relatively minor levels.
- Even when systems attempt to enforce controls, users can still devise ways of bypassing the agreed procedure.
- The new approach to control was developed in conjunction with senior management, who considered and accepted the risks associated with this change on internal control within the Council.

In adopting this approach, it is acknowledged that a greater inherent risk exists in terms of the control environment. This risk has continued to increase in recent times due to the fact that the financial challenges faced over the last few years have resulted in significant management layering across the Council. As a result, there is less management resource available to provide oversight of activity in directorates. For these reasons, the level of assurance that the Internal Audit and Risk Manager can provide is somewhat restricted.

In considering the outcome of audit activity for 2014-15, we have initially looked at the number of 'limited' or 'no' assurance audits (as these require immediate improvements) and compared the results with the previous two years.

**Table Three: Comparison of Audit Assurance Levels**

Financial Year	Number of Audits	Number of Audits With 'limited' or 'no' Assurance	Percentage of Audits with 'limited' or 'no' Assurance
2014-15	85	6	7%
2013-14	92	8	9%
2012-13	93	9	10%

Whilst table three above indicates a pattern where the number of audits that require immediate improvements are reducing, this does not necessarily mean that the Council's internal control environment has improved in the last year. Other factors we have considered include:

- The impact that the weaknesses identified have on the overall Council control environment - When considering the six reviews, they fall equally into the following categories:
  - Reviews that are focused on working practices in specific departments / functions.
  - Reviews where issues have a corporate impact either in terms of finance, reputation and / or service delivery.

- Whether there is any specific change in audit focus / approach that may have impacted on the number of 'limited' or 'no' assurance audits – During 2014-15, there has been an increase in the number of fact finding reviews undertaken by Internal Audit, as given the limitation in audit resources, this approach is viewed as a more efficient way of responding to concerns raised. In comparison to a traditional audit review, the scope is limited to a specific concern rather than considering all key activities undertaken by a service area / department. Whilst some of these reviews identify concerns that require immediate improvements, an assurance level is not provided given the limited scope of such reviews is limited.

In considering all the factors highlighted, it is the Internal Audit and Risk Manager's view that the Council's internal control environment has not significantly changed over the last year. As a result, the Internal Audit and Risk Manager has concluded that **moderate assurance** can be provided that there is generally a sound system of internal control designed to meet the Council's objectives.

**2.3.4 Issues relevant to the preparation of the Annual Governance Statement** – In undertaking the assessment of the Council's internal control environment, the Internal Audit and Risk Manager has identified a number of areas that, in his opinion, need to be considered when the Council produces its Annual Governance Statement for 2014-15.

From a general point of view, any audit where 'limited' or 'no' assurance was provided requires attention. In terms of key issues, the following are highlighted:

1. **To ensure robust processes and procedures exist to minimise the risk of fraud and error in relation to the award of council tax discounts and exemptions.** Whilst a programme of proactive reviews has been agreed to supplement existing processes, no assessment on the impact of the new arrangements has been undertaken as the reviews have only recently commenced and the Council's approach in this area is still being developed.
2. **To address the concerns over the robustness of the payment process in respect of adult social care, which are administered through the CareDirector System.** This issue reflects the findings of this audit which are summarised at appendix two.
3. **To undertake a review of the Council's Code of Corporate Governance.** This issue is not specifically linked to Internal Audit work but reflects an issue identified by the Service as part of its work co-ordinating the production of the Annual Governance Statement.

### **3. Results of consultation undertaken**

3.1 None

### **4. Timetable for implementing this decision**

4.1 There is no implementation timetable associated with this report, although the opinion of the Internal Audit and Risk Manager on the adequacy of the Council's internal control environment is a key source in the preparation of the Annual Governance Statement.



## **5. Comments from the Executive Director Resources**

### **5.1 Financial Implications**

There are no specific financial implications associated with this report. Internal audit work has clear and direct effects, through the recommendations made, to help improve value for money obtained, the probity and propriety of financial administration, and / or the management of operational risks.

### **5.2 Legal implications**

There are no legal implications associated with this report.

## **6. Other implications**

### **6.1 How will this contribute to achievement of the council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / LAA (or Coventry SCS)?**

Internal Auditing is defined in the Public Sector Internal Audit Standards as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes". As such the work of Internal Audit is directly linked to the Council's key objectives / priorities with specific focus agreed on an annual basis, and reflected in the annual Internal Audit Plan.

### **6.2 How is risk being managed?**

In terms of risk management, there are two focuses:

- Internal Audit and Risk Service perspective - The main risks facing the Service are that the planned programme of audits is not completed, and that the quality of audit reviews fails to meet customer expectations. Both these risks are managed through defined processes (i.e. planning and quality assurance) within the Service, with the outcomes included in reports to the Audit and Procurement Committee.
- Wider Council perspective - The key risk is that actions agreed in audit reports to improve the control environment and assist the Council in achieving its objectives are not implemented. To mitigate this risk, a defined process exists within the Service to gain assurance that all actions agreed have been implemented on a timely basis. Such assurance is reflected in reports to the Audit and Procurement Committee. Where progress has not been made, further action is agreed and overseen by the Audit and Procurement Committee to ensure action is taken.

### **6.2 What is the impact on the organisation?**

None

### **6.4 Equalities / EIA**

None

### **6.5 Implications for (or impact on) the environment**

No impact

## 6.6 Implications for partner organisations?

None

### Report author(s):

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### Name and job title:

Internal Audit and Risk Manager

### Directorate:

Resources

### Tel and email contact

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Enquiries should be directed to the above person.

Contributor/approver name	Title	Directorate or organisation	Date doc sent out	Date response received or approved
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<b>Names of approvers: (officers and members)</b>				
Finance: Paul Jennings	Finance Manager Corporate Finance	Resources	05/06/2015	05/06/2015
Legal: Carol Bradford	Solicitor	Resources	05/06/2015	12/06/2015

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[www.coventry.gov.uk/meetings](http://www.coventry.gov.uk/meetings)

## Appendix One – Internal Audit Reviews Completed in 2014-15

Audit Area	Audit Title	Level of Assurance	
<b>Corporate Risk</b>	Safeguarding Adults*	Moderate	
	Safeguarding Training	N/A – Fact Finding	
	Coventry Investment Fund	Moderate	
	Agresso Post Implementation Review*	N/A – Lessons Learnt	
<b>Key / Audit Priorities</b>	IT Security Review	Moderate	
	IT CareDirector Application Review	Moderate	
	IT Agresso Application Review*	Moderate	
	Talentlink*	Moderate	
	Pertemps Master Vendor*	Limited	
	Procurement – Highways	N/A – Fact Finding	
	Procurement - Property	N/A – Fact Finding	
	Paper Rationalisation – General	N/A – Support and Advice	
	Paper Rationalisation – Housing Options Service Review	N/A – Support and Advice	
	Agresso – Accounts Receivable	Moderate	
	Agresso – Accounts Payable	Significant	
	<b>Finance Systems</b>	Council Tax	Moderate
Payroll		Significant	
Business Rates		Moderate	
CareDirector Income*		Moderate	
CareDirector Expenditure		Limited	
Protocol		Moderate	
Housing Benefit Overpayments		Moderate	
Cashiers Office		Significant	
CNR		Significant	
Duplicate Payment Exercise		N/A – Payment Error Review	
Direct Payments		N/A – Support and Advice	
<b>Regulatory</b>		Adoption Reform Grant	Verification
		Highways Grant	Verification
		Section 256 Funding (NHS)	Verification
		Pension Scheme – Council	Verification
	Pension Scheme - Academies	Verification	
	Cycle Coventry Grant	Verification	
	Trouble Families Grant	Verification	
	Super Connected Coventry Grant	Verification	
	Living with Dementia Grant	Verification	
	Schools Direct Grant	Verification	
	NHS Information Governance Toolkit	Verification	
	Declaration of Interest	N/A – Annual Exercise	
	Annual Governance Statement*	N/A – Annual Review	
	Annual Review of the System of Internal Audit*	N/A – Annual Review	
	Business Continuity	N/A – Support and Advice	
	<b>Schools</b>	Allesley Hall Primary School	Moderate
		Cardinal Newman Secondary School	Moderate

<b>Audit Area</b>	<b>Audit Title</b>	<b>Level of Assurance</b>
	Charter Primary School	Moderate
	Clifford Bridge Primary School	Moderate
	Earlsdon Primary School	Moderate
	Ernesford Grange Primary School	Significant
	Henley Green Primary School	Moderate
	John Shelton Primary School	Moderate
	Moseley Primary School	Significant
	Our Lady of the Assumption Primary School	Moderate
	Park Hill Primary School	Significant
	Pearl Hyde Primary School	Significant
	Sherbourne Fields School	Significant
	St Annes Catholic Primary School	Moderate
	St Augustines Catholic Primary School	Moderate
	St Elizabeths Catholic Primary School	Moderate
	St John Vianney Catholic Primary School	Moderate
	St Marys and Benedicts Catholic Primary School	Moderate
	St Thomas More Catholic Primary School	Moderate
	Stivichall Primary School	Moderate
	Stoke Primary School	Moderate
	Stoke Park Secondary School	Moderate
	Templars Primary School	Moderate
	Whitmore Park Primary School	Moderate
	Woodfield Primary School	Moderate
<b>Contingency</b>	Bereavement Services	N/A – Fact Finding
	System Audit Trails	N/A – Fact Finding
	Information Security	N/A – Fact Finding
	Safeguarding Concern	N/A – Support and Advice
	Recovery of Legal Costs	N/A – Support and Advice
	Data Migration (Oracle to Agresso)	Verification
	Infrastructure Assets	Moderate
	School Appeals	Moderate
	Performing Arts Service	Limited
<b>Follow up</b>	Stoke Heath Primary School*	Limited
	Little Heath Primary School	Significant
	Network Security (IT)	Moderate
	System Back Up, Recovery and Data Centre*	Limited
	Section 17*	Limited
	Heritage Assets	Moderate
	Route 21 Care Leavers Payments	Moderate

(\*) Audit findings reported to Audit and Procurement Committee during municipal year 2014-15

## Appendix Two – Summary Findings from Key Audit Reports

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
<p><b>CareDirector Expenditure</b></p> <p><b>July 2015</b></p> <p><b>Head of Business Systems</b></p>	<p><b>Overall Objective:</b> To ensure that the Council has effective systems in place to administer payments made through CareDirector in respect of adult social care.</p> <p><b>Opinion:</b> Limited Assurance      <b>Summary / Actions Identified:</b></p> <p>The review identified the following areas of good practice:</p> <ul style="list-style-type: none"> <li>• Development of a suite of reports through Sharepoint which gives real time access to management information in the CareDirector System and which supports effective financial decision making.</li> <li>• A restructure within the Financial Operations Team which clearly defines roles and responsibilities for key financial processes in respect of CareDirector.</li> </ul> <p>The level of assurance reflects the fact that whilst we have established that the system is effective in terms of ensuring that payments to social care providers and clients are accurately processed, when combined with manual working practices which we found to be ineffective, this does raise significant concerns over the robustness of the payment process. This is reflected in the fact that – (1) audit testing identified duplicate payments totalling approximately £29k as well as an overpayment of £7,727 and (2) a lack of urgency in pursuing debt related to payments made ‘on account’.</p> <p>Areas for improvement identified include:</p> <ul style="list-style-type: none"> <li>• Restricting the use of CHAPs payments (suggestion of undertaking two weekly payment runs will provide an appropriate alternative arrangement to CHAPs) and take urgent action to recover monies owed to the Council highlighted in this review.</li> <li>• Development of robust arrangements to ensure that credit balances which occur when a service ends are appropriately dealt with on a timely basis.</li> <li>• The requirement for management oversight of variations / adjustments input to the System to ensure accuracy and which is focused on high value transactions.</li> </ul>

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
<p><b>Agresso – Accounts Receivable</b></p> <p><b>December 2015</b></p> <p><b>Head of Revenues and Benefits</b></p>	<p><b>Overall Objective:</b> To ensure that the Council has robust systems in place to ensure that all income due to the Council is collected on a timely basis. The scope of the review has not covered the following income areas - Council Tax, Business Rates and social care [CareDirector] as these are subject to separate reviews.</p> <p><b>Opinion:</b> Moderate Assurance      <b>Summary / Actions Identified:</b></p> <p>The review identified the following areas of good practice:</p> <ul style="list-style-type: none"> <li>• The Agresso system automates key aspects of system control, making processes more streamlined, such as customer creation, raising invoices, and periodic payments.</li> <li>• System reports provide mechanisms for monitoring / review, including customers where they have defaulted on their payment arrangement.</li> </ul> <p>The level of assurance reflects the fact that despite the system being in operation for over a year – (1) a key basic requirement [aged debt report] has only been available since November 2014, and (2) the Corporate Income Team is still trying to understand the system’s full capabilities.</p> <p>Areas for improvement identified include:</p> <ul style="list-style-type: none"> <li>• To undertake formal reconciliations of all data transfers through interfaces and retain the documented evidence of the reconciliation.</li> <li>• To focus management action on assessing the effectiveness of debt recovery arrangements in place within the Corporate Income Team.</li> <li>• To put in place arrangements to ensure that the Corporate Income Team have a better understanding of the capability of Agresso, including its reporting functionality.</li> </ul>