



Coventry City Council

Public report

Report to

Audit and Procurement Committee

26th October 2015

Name of Cabinet Member:

Cabinet Member for Strategic Finance & Resources – Councillor Gannon

Director approving submission of the report:

Executive Director of Resources

Ward(s) affected:

City Wide

Title:

Internal Audit Plan 2015-16

Is this a key decision?

No

Executive summary:

The purpose of this report is to share the draft Internal Audit Plan for 2015-16 with the Audit and Procurement Committee to allow the Committee to express its views on the extent and nature of the planned coverage.

Recommendations:

Audit and Procurement Committee is recommended to consider the draft Internal Audit Plan for 2015-16 (Appendix One) and provide any comments on the content and scope of the proposed Plan.

List of Appendices included:

Appendix 1 Draft Internal Audit Plan 2015-16

Other useful background papers:

None

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:

Draft Internal Audit Plan 2015-16

1. Context (or background)

1.1 The Audit and Procurement Committee, within its terms of reference, is required 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'.

1.2 In terms of proposed audit activities, the draft Internal Audit Plan attached at Appendix One documents the outcome of the audit planning process for 2015-16. This report provides the mechanism for allowing the Audit and Procurement Committee to discharge its responsibility as highlighted above, but also enables the Committee, as a key stakeholder of the Internal Audit Service, to comment on the content and scope of the proposed Internal Audit Plan.

1.3 The plan is normally presented to the Audit and Procurement Committee in April each year, but this has been delayed in 2015-16 whilst the Legal and Democratic Services Review was undertaken. Whilst the second stage of this review is due to start shortly, it is envisaged that any impact from this review will not occur until the later stages of the 2015-16 financial year or 2016-17.

2. Options considered and recommended proposal

2.1 **Background** – Internal Audit is an essential part of the Council's corporate governance arrangements. In considering the Public Sector Internal Audit Standards (PSIAS), Internal Audit is defined 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".

In delivering against this expectation, we do have to acknowledge that resources available are limited and, therefore, need to undertake a planning exercise to ensure that resources are focused on those areas posing the greatest risk to the Council achieving its objectives. This report documents the planning process and identifies the outcome of this process, namely the draft Internal Audit Plan for 2015-16.

In developing the Audit Plan, we aim to achieve the following objectives:

- To provide a cost effective, targeted and value added Service to our customers. This requires the Service to achieve a balance between delivering standard audit reviews and supporting significant developments so that audit expectations can be reflected in how new systems / processes are set up.
- To provide the Service with a degree of flexibility to allow it to be able to respond to the changing needs of stakeholders during the year.
- Ensuring that the level and skills of audit resources available is appropriate to meet the audit needs of the Council.

- To allow the Chief Internal Auditor to provide the Council with an annual opinion on the effectiveness of the organisation's risk management, control and governance arrangements.

2.2 **Planning** – The planning process has three stages, namely:

- Determining any factors that limit the scope of audit work.
- Identifying the Audit Universe (i.e. a list of areas that may require auditing).
- Completing a risk assessment to establish priorities.

These points are expanded upon below:

2.2.1 **Scope of Audit Work** – The key factor limiting the scope of audit work undertaken is the level of audit resources available. For 2015-16, the resources available are 880 days for audit and corporate fraud work. This is a reduction of just under 400 days when compared with 2014-15 and is due to the fact that one post has been deleted through the early retirement / voluntary redundancy process and a further two posts are vacant pending the outcome of the current service review.

In considering the resources available for 2015-16, we do believe this is sufficient for the work required to report on key risks and controls in the year, and to prepare our annual opinion and report. This view reflects the following action taken:

- **Schools Audit** – Our approach to school audits has traditionally been based around every school being audited over a three year period. Based on the reducing number of maintained schools and an assessment of the outcomes of audits reviews in the last three years, we have concluded that the current level of audit resource allocated to this area can no longer be justified. As a result, the allocation for 2015-16 is based more around an assessment of risk as well as providing flexibility to respond to issues during the year. The impact of this is a reduction of 160 days compared to 2014-15.
- **Key Audit Priorities** – In the 2014-15 plan, 100 days were allocated to Paper Rationalisation to assist the Council in its aim of significantly rationalising both paper usage and storage requirements ahead of the move to the Council's new office in 2016. The level of need in 2014-15 meant the full 100 days were not used and whilst we will continue to support this work in 2015-16, we do not expect demand for this to be significant and plan to resource requests through our contingency days allocation. As this area has not been replaced with another significant priority, this will free up 100 days compared to 2014-15.
- **Financial Systems** – We continue to revise our focus around finance systems given the increasing automation of such systems and the effectiveness of controls in place within these systems. In comparison with 2014-15, resources allocated to this area have reduced by 85 days.

2.2.2 **Audit Universe** – Audit areas are identified through a variety of methods, including:

- Risks contained within the Council's corporate risk register.
- Ongoing discussions with senior officers over the last year to establish emerging issues facing the Council that warrant audit focus.

- Establishing the Council's key financial systems that potentially have a material impact on the financial accounts.
- Awareness of mandatory audit areas that are determined by funding bodies and / or codes of practice.
- A review of previous audits completed and issues identified since 2011-12.

2.2.3 Risk Assessment – After identifying the audit universe, where appropriate, a risk assessment is completed covering the following factors:

- Audit opinion provided in last review.
- Stability of system / procedures.
- Impact / importance of area to Council.
- The level of national / external focus given to the area.

Through this process, all potential auditable areas are assessed through a scoring mechanism, to prioritise areas to consider for inclusion in the Audit Plan.

2.3 **Draft Audit Plan 2015-16** - The results of the initial assessment of priorities are shown in Appendix One. Key points to note include:

2.3.1 Corporate Risks – A key requirement in developing the Audit Plan is to align resources to the Council's corporate risk register. Whilst there are currently 13 corporate risks, the Audit plan will consider only four of these areas in 2015-16. Reasons for why there will be no audit coverage in 2015-16 for the other nine risks are:

- Discussions with key officers highlighted that for three risks (Workforce Strategy, Care Act, Move to Friargate) it was viewed as too early to audit these areas this year. These areas will be included in the 2016-17 audit plan.
- Three risks where alternative assurance mechanisms exist (Finance, Ofsted Improvement Notice, and High Quality Education).
- Two risks (ACL / CCFC, Friargate Development) where there is no clear auditable area in our opinion.
- One risk (regeneration) which has been subject to regular audit coverage in the last two years. Reviews undertaken include the Coventry Investment Fund and the Coventry and Warwickshire Local Enterprise Partnerships.

2.3.2 Key / Audit Priorities – These areas are identified through various sources including:

- Where Internal Audit regard these as key priorities despite the fact that they are not identified either through the risk management process or via discussions with senior officers.
- Through discussions with senior officers and / or members.
- Identified nationally as a key development facing Councils.

2.3.3 Contingency / Directorate Risks – 150 days to respond flexibly to matters arising have been allocated in the Audit Plan for 2015-16. It is anticipated that these days will be used on the following activities:

- Responding to directorate concerns during the year.
- Supporting the Council in responding to emerging developments that occur in year.
- Actively participating as a member of Council groups when required.

3. Results of consultation undertaken

3.1 Our experience over the last few years is that there has been limited value in undertaking a formal consultation exercise as areas identified are sometimes no longer a priority by the time the plan is approved or the review is ready to commence. We have had initial discussions with key officers to inform the development of this Audit Plan, but see consultation as an on-going process throughout the year. Any significant changes in the Audit Plan will be reported to the Audit and Procurements Committee within regular monitoring reports.

4. Timetable for implementing this decision

4.1 The Internal Audit Plan is an annual plan and is based on a completion date of the 31st March 2016. Progress is monitored by the Audit and Procurement Committee. In addition to the planned quarterly progress reports, the Internal Audit Service is required to produce an annual report. This report is due in June / July 2016 and will include the opinion of the Chief Internal Auditor on the adequacy of the Council's control environment, highlighting issues relevant to the preparation of the Annual Governance Statement.

5. Comments from the Executive Director of 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.

6.3 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

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This report is published on the council's website:
www.coventry.gov.uk/meetings

Appendix One – Internal Audit Plan 2015-16

KEY DRIVER	RISK LEVEL	AUDIT AREA	PLANNED DAYS
Corporate Risk			
	High	ICT Infrastructure and Change*	40
	High	Customer Journey	15
	High	Adult Social Care	30
	High	Safeguarding	20
Key / Audit Priorities			
	Medium	Procurement / Commissioning	40
	Medium	Health and Safety	15
	Medium	Sickness Absence	20
	Medium	Better Care Fund	15
	Medium	Trouble Families Programme	15
	Medium	Business Continuity	15
	Medium	New HR / Payroll System (Support and Advice)	10
Financial Systems			
	High	Accounts Payable	10
	High	Accounts Receivable	15
	High	Council Tax	10
	High	Payroll	15
	Medium	Business Rates	10
	Medium	Housing Benefits	15
	Medium	Income Manager	15
	Medium	Discretionary Payment Schemes	15
	Medium	Capital	15
	Medium	Payment Audit*	10
Regularity			
		Grants	35
		Corporate Governance	20
		Information Governance	15
		Risk Management	20
Other			
		Contingency / Directorate Risks	150
		Schools	50
		Follow up	40
		2014-15 B/Fwd	40
		Fraud	120
		Audit Management	25
		Total Days Available	880

*Audits undertaken by third party