



Coventry City Council

Public report

Report to

Audit and Procurement Committee

11th April 2016

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 Planning Process 2016-17

Is this a key decision?

No

Executive summary:

The purpose of this report is to outline the approach for developing the draft Internal Audit Plan for 2016-17 to allow the Audit and Procurement Committee to express its views on the planning process.

Recommendations:

Audit and Procurement Committee is recommended to consider the planned approach for developing the draft Internal Audit Plan for 2016-17 and provide any comments on the content and scope of the proposed process.

List of Appendices included:

None

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:

Internal Audit Planning Process 2016-17

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, a draft Internal Audit Plan is produced on an annual basis and is reported to the Audit and Procurement Committee to allow the Committee to discharge its responsibility as highlighted above. This mechanism also allows for the Audit and Procurement Committee to comment on the content and scope of the proposed Internal Audit Plan as a key stakeholder of the Internal Audit Service.

1.3 The plan is normally presented to the Audit and Procurement Committee in April each year. The production of the plan for 2016-17 has been delayed due to the need to ensure that the planning process meets the Public Sector Internal Audit Standards (PSIAS) and also incorporates an assessment of the resources required to provide adequate audit coverage across the organisation, to inform the completion of the Legal and Democratic Services Review in relation to the Internal Audit Service.

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 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".

A key aspect of delivering this activity is the production of the Internal Audit Plan. The PSIAS has a number of standards in relation to establishing the Plan, which include:

- The plan must be based on a documented risk assessment, undertaken at least annually and which considers the input of senior management and the board.
- Identifying and considering the expectations of senior management and other stakeholders for internal audit opinions.
- Ensuring that internal audit resources are assessed and are appropriate to achieve the plan.

Whilst in recent years, previous planning exercises have been focused on providing audit coverage on those areas posing the greatest risk to the Council achieving its objectives, the requirement to complete the Legal and Democratic Service Review in relation to Internal Audit has identified a need to establish a plan that is reflective of the organisations' needs and which informs a more detailed assessment of internal audit resources required to achieve the plan.

This report documents the proposed planning process that will be undertaken to produce the draft Internal Audit Plan for 2016-17.

In developing the Internal 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.
- 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 Process– The production of the draft Internal Audit Plan in 2015-16 followed a three stage process:

- 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.

In developing the draft Internal Audit Plan for 2016-17, it is proposed that the process will be as follows:

- Identifying the Audit Universe
- Establishing what sources of assurances currently exist in relation to the Audit Universe and upon which the organisation can place reliance.
- Completing a risk assessment to establish priorities in those areas where other sources of assurance are not available.
- Using the results of this to undertake an assessment of the resources within the Internal Audit Service.

These points are expanded upon below:

2.2.1 Identifying the Audit Universe – this requires identification of all areas of activity which the Council undertakes in support of achieving its aims and objectives and also incorporates the following mechanisms:

- 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.

2.2.2 Sources of assurance – In order to ensure adequate coverage and avoid duplication of effort, an assurance mapping exercise is required to understand what other internal and external providers of assurance already exist and upon which the organisation can place reliance, thus reducing the need for internal audit coverage. These sources of assurance include (but are not limited to) External Audit, Ofsted Inspections and other internal assurance mechanisms.

The process for identifying the Internal Audit Universe and carrying out the assurance mapping exercise will be carried out through consultation with senior officers across the Council and other parties where appropriate, for example, External Audit.

2.2.3 Risk Assessment – Where the assurance mapping exercise determines that internal audit coverage should be considered, a risk assessment will be completed covering the following factors:

- Whether the area is included in the Council's corporate risk register.
- The results of any previous internal audit reviews undertaken.
- On-going discussions with senior officers over the last year which establish emerging issues that warrant audit focus.
- Impact / importance of the area to the Council and any national / external focus given.

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

2.2.4 Resource Assessment – Where the risk assessment process identifies areas which should be included within the draft Internal Audit Plan, an assessment will be made of the resources required to deliver this, both in terms of capacity and skills, and considering any resource constraints that exist. The results of this will then be used to inform the decision making process in regards to the review of the structure of Internal Audit, which forms part of the Legal and Democratic Service review. This approach is different to that taken in 2015-16 because there is a need to ensure that there is an appropriate evidential basis upon which to complete this process.

3. Results of consultation undertaken

3.1 The approach to undertaking the planning process has been developed in consultation with the Legal Services Manager (Place & Regulatory) who has overall responsibility for the Internal Audit Service. Informal discussions have also taken place with other key stakeholders.

4. Timetable for implementing this decision

4.1 It is envisaged that a draft Internal Audit Plan will be produced by 30th June 2016. The Internal Audit Plan is an annual plan and is based on a completion date of the 31st March 2017. 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 2017 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:

- The risk that the Internal Audit Plan does not reflect the organisation's needs, both in terms of providing assurance to management and as a key aspect of the governance framework. This is managed through a structured planning process which includes consultation with senior management and key stakeholders, with the resulting Internal Audit Plan being presented to Audit & Procurement Committee.
- The risk that audit resources are not aligned to delivery of the plan. To mitigate this risk, a defined process has been included in the development of the Internal Audit Plan to consider the level of resources required.

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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