



Coventry City Council

# Public report

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**Report to**

Audit and Procurement Committee

25<sup>th</sup> July 2016

**Name of Cabinet Member:**

Cabinet Member for Strategic Finance & Resources – Councillor J Mutton

**Director approving submission of the report:**

Executive Director, Resources

**Ward(s) affected:**

City Wide

**Title:**

Internal Audit Annual Report 2015-16

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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 2015 to March 2016 against the agreed Audit Plan for 2015-16.
- To provide the Audit and Procurement Committee with the Acting Chief Internal Auditor's opinion on the overall adequacy and effectiveness of Coventry City Council's internal control environment for the financial year 2015-16 (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 2015-16.
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 2015-16 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 Acting Chief Internal Auditor on the overall adequacy and effectiveness of Coventry City Council's internal control environment.

**List of Appendices included:**

Appendix One - Audits completed in 2015-16

Appendix Two - Summary findings from key audit reports

**Background papers:**

None

**Other useful documents:**

Half Year Internal Audit Progress Report 2015-16

<http://moderngov.coventry.gov.uk/ieListDocuments.aspx?CId=553&MId=10799&Ver=4>

Internal Audit Plan 2015-16 – Quarter Three Progress Report

<http://moderngov.coventry.gov.uk/ieListDocuments.aspx?CId=553&MId=10801&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 2015-16

**1. Context (or background)**

1.1 The Audit and Procurement Committee approved the Council's Internal Audit Plan for 2015-16 at its meeting on the 26<sup>th</sup> October 2015. During the last financial year, the Committee has received progress reports summarising completed audit activity in October 2015 and February 2016.

1.2 This report details the performance of the Internal Audit Service against the Plan for 2015-16, 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:

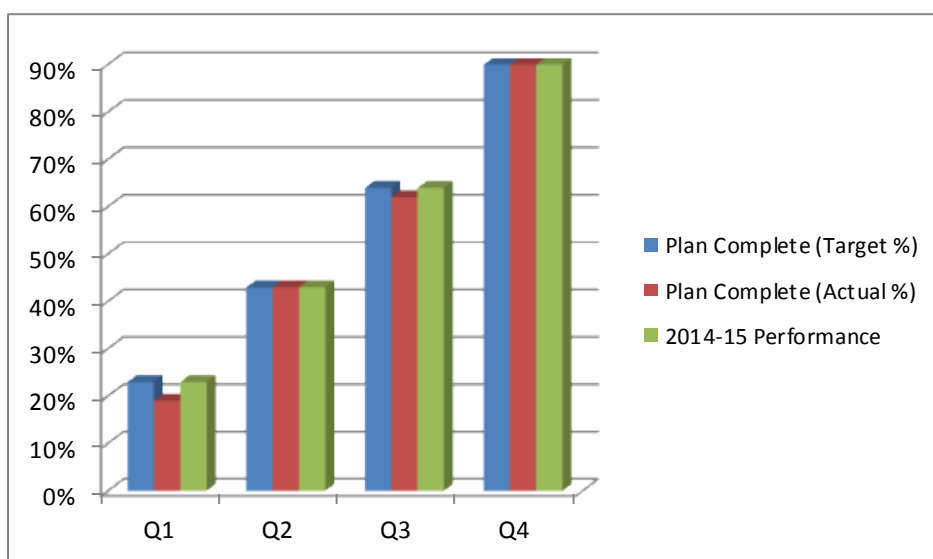
- Assessment of the performance of the Internal Audit Service against its key targets.
- A summary of the audit activity in 2015-16, and highlighting issues that have not been reported to the Audit and Procurement Committee previously, and are relevant to the overall opinion provided in section 2.3.
- The Acting Chief Internal Auditor'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 2016. The chart below shows that the Service met this target.

**Chart One: Performance of Internal Audit 2015-16**



2.1.2 It needs to be acknowledged that this performance is against a revised plan that stemmed from unplanned absences within the Internal Audit Service from December 2015 and the decision to manage the impact of this in the short term through amending the 2015-16 audit plan to take account of planned audits being postponed / delayed and where days allocated in the plan were not reflective of need. This decision was agreed by the Audit and Procurement Committee in February 2016.

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 2015-16, compared with performance in 2014-15.

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

<b>Performance Measure</b>	<b>Target</b>	<b>Performance 2015-16</b>	<b>Performance 2014-15</b>
<b>Planned Days Delivered</b> (Revised)	100%	96%	100%
<b>Productive Time of Team</b> (% of work time spent on audit work)	90%	88%	89%
<b>Draft Report to Deadline</b> (Draft issued in line with date agreed)	80%	74%	79%
<b>Final Report to Deadline</b> (Final issued within 4 weeks of draft)	80%	91%	88%
<b>Audits Delivered within Budget Days</b>	80%	68%	74%

Whilst in comparison with 2014-15, the overall performance across the range of indicators has slightly declined, this needs to be considered in the context of the impact of the on-going unplanned absences within the Internal Audit Service and the fact that, in the short term, priority was given to delivery of the agreed work plan for 2015-16, as the key target for the Service. Where the Service's performance is below expectations, targeted actions are on-going to deliver greater efficiency and take steps to improve performance over the longer term.

## 2.2 Audit Activity 2015-16

2.2.1 Appendix One details the audit reviews that have been carried out in the financial year 2015-16 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 2015 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 2014-15** – In the previous annual report, the Chief Internal Auditor identified a number of areas where he believed significant control improvements were required. An update on each of these areas is provided below:

- **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** – Arrangements are now in place for an on-going programme of pro-active reviews, undertaken by the Fraud and Error Team. In 2015-16, this resulted in 103 exemptions being amended with new bills being issued amounting to £125k. However, an audit review in March 2016 of the procedures administered by Council Tax highlighted areas for improvement in relation to the award of exemptions and discounts and actions have

been agreed with management to address this. A summary of the key findings of this review are included at appendix two.

- **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 disclosure was based on the findings of the 2014-15 review of CareDirector. In 2015-16, follow up audit work has confirmed that action has been taken to address the key concerns highlighted and moderate assurance has now been given that the payment process is adequately controlled.
- **To undertake a review of the Council's Code of Corporate Governance** – The planned review of the Code during 2015-16 was postponed in light of the fact that it was identified that CIPFA are planning to issue new guidance on the Code. This action has now been carried forward to 2016-17.

As a consequence of the results of the follow-up, with the exception of the area of adult social care payments made through CareDirector, which is no longer viewed as requiring significant control improvements, the other disclosures made in the Internal Audit Annual Report 2014-15 have been considered in the preparation of the Annual Governance Statement for 2015-16.

### 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 Acting Chief Internal Auditor 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. 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, complies with Council policies and procedures.

This approach is viewed as reasonable by the Acting Chief Internal Auditor on the basis that:

- Central enforcement of control is only necessary where officers consistently fail to follow agreed procedures. The experience of the Acting Chief Internal Auditor is that whilst non-compliance occurs across the Council, this is at relatively minor levels.
- The increased use of ICT systems across the Council to enforce key controls, which previously relied upon manual processes, for example, ensuring authorisation limits for approving expenditure are complied with.
- The new approach to control was developed in conjunction with senior management, who considered and accepted the risks associated with this change in the approach to 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 Acting Chief Internal Auditor can provide remains somewhat restricted.

In considering the outcome of audit activity for 2015-16, 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
2015-16	55	3	5%
2014-15	85	6	7%
2013-14	92	8	9%

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 three reviews, they fall into one of 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 – there are two aspects to this, namely:
  - A number of fact finding reviews have been undertaken by Internal Audit in 2015-16, 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.
  - The overall number of audits is lower than previous years which reflects the fact that, in order to ensure that available resources are directed to the key elements of the Council's internal control environment, there has been a shift in audit focus from routine school audits (which individually require fewer budget days) to those areas which have a corporate impact.

In considering all the factors highlighted, it is the Acting Chief Internal Auditor's view that the Council's internal control environment has not significantly changed over the last year. As a result, the Acting Chief Internal Auditor 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 Acting Chief Internal Auditor has identified a number of areas that, in her opinion, need to be considered when the Council produces its Annual Governance Statement for 2015-16.

From a general point of view, whilst any audit where 'limited' or 'no' assurance was provided requires attention, an assessment is also made as to whether the review has a corporate impact and consequently needs to be considered in the producing the Annual Governance Statement, or whether the review is limited to specific working practices in service areas which do not have a wider bearing on the Council's control environment.

In terms of key issues identified, the following are highlighted:

1. **To ensure that, alongside the programme of proactive reviews undertaken in relation to council tax exemptions / discounts, procedures to underpin the award of exemptions and discounts are consistently complied with.** This reflects the findings of this audit which are summarised at appendix two.
2. **To undertake a review of a number of the key procedures that underpin the governance framework, namely the Risk Management Strategy, the Code of Corporate Governance, the Whistleblowing procedure and the Fraud and Corruption Strategy.** This issue is not specifically linked to Internal Audit work but reflects the follow up of disclosures made in 2014-15 and other issues 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 Acting Chief Internal Auditor 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 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

**Report author(s):**

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**Name and job title:**

Acting Chief Internal Auditor

**Directorate:**

Resources

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Lara Knight	Governance Services Co-ordinator	Resources	29/6/16	29/6/16
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[www.coventry.gov.uk/meetings](http://www.coventry.gov.uk/meetings)

## Appendix One – Internal Audit Reviews Completed in 2015-16

Audit Area	Audit Title	Level of Assurance
<b>Corporate Risk</b>	IT – Protocol Application Review	Moderate
	IT – Change	Moderate
	Adult Social Care – Electronic Call Monitoring*	Moderate
	Adult Social Care – FACE*	Moderate
	IT – Disaster Recovery**	
	IT – Office 365/Cloud**	
	IT – Major Incident Reviews*	Limited
<b>Key / Audit Priorities</b>	Procurement Health check*	Moderate
	Sickness absence (return to work)*	N/A – compliance focused
	Procurement – alarms contract	N/A fact finding
	Capital – Disabled Facilities Grant	Moderate
	Paper rationalisation	N/A Support and advice
<b>Finance Systems</b>	Accounts Payable	Significant
	Accounts Receivable	Moderate
	Income Manager	Moderate
	Payroll	Significant
	Council Tax*	Limited
	Business Rates	Moderate
	Housing Benefits	Moderate
	Discretionary Payments	Significant
	CNR	Significant
	Purchasing cards	Significant
	Payment Audit	N/A – payment error review
<b>Regularity</b>	Troubled families programme	Verification
	Section 256 (Health)	Verification
	Super Connect Coventry	Verification
	Disabled Facilities Grant	Verification
	Teachers Pensions Scheme	Verification
	School Direct	Verification
	Cycle Coventry	Verification
	NHS Information Governance Toolkit	Verification
	Annual Governance Statement	N/A – annual review
	Declaration of Interest	N/A – annual review
Annual review of the system of Internal Audit	N/A – annual review	
<b>Schools</b>	Keresley Grange Primary School*	Limited
	Castlewood Special School	N/A – fact finding
	Longford Park Primary School	Moderate
	Christ the King Primary School	Significant
	Whoberly Hall Primary School	Significant
	Mount Nod Primary School	Significant
	Stanton Bridge Primary School**	
Southfields Primary School	Significant	
<b>Contingency</b>	Job Shop	N/A fact finding
	Schools Finance Manual review	N/A Support and advice
	Expenses	Moderate
	Redundancy payment	N/A – fact finding
	Parking Enforcement	N/A - fact finding

<b>Audit Area</b>	<b>Audit Title</b>	<b>Level of Assurance</b>
	Long Service Award	N/A – fact finding
<b>Follow up</b>	Procurement – Highways Minor Civil Engineering Contract*	Moderate
	Performing Arts Service	Moderate
	Pertemps Master Vendor*	Moderate
	CareDirector Expenditure*	Moderate
	Stoke Heath Primary School*	Significant
	Section 17 Payments	Moderate
	Procurement – Statutory Services (Place Directorate)	Moderate

(\*) Audit findings reported to Audit and Procurement Committee during municipal year 2015-16

(\*\*) Audits not finalised at the time of this report

Note - A further six audit reviews were completed within 2015-16 but were included within the 2014-15 annual report.

**Appendix Two – Summary Findings from Key Audit Reports**

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
<p><b>Keresley Grange Primary School</b></p> <p><b>April 2016</b></p> <p><b>Head Teacher</b></p>	<p><b>Overall Objective:</b> To ensure that robust systems and controls exist to support the effective management of the school's resources.</p> <p><b>Opinion:</b> Limited Assurance      <b>Summary / Actions Identified:</b></p> <p>The level of assurance reflects the fact that whilst a new Office Manager has only been in post at the school since December 2015, collectively the issues identified do expose the school to the risk that finances are mis-managed. This suggests that the school have not fully taken on board the lessons learnt from previous concerns raised / work undertaken by Internal Audit. In saying this, the appointment of the Office Manager does provide the opportunity to ensure that robust working practices are now embedded at the school.</p> <p>Areas for improvement identified include:</p> <ul style="list-style-type: none"> <li>• To ensure that there is adequate separation of duties within the purchase order process and that orders are raised on a timely basis.</li> <li>• To ensure that the final cheque run listing is approved by the Head Teacher.</li> <li>• To put in place arrangements to provide robust control over the bank reconciliation process.</li> <li>• To ensure that all debtors are correctly stated on the SIMS accounting system.</li> </ul>

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
<p><b>Council Tax – Discounts and Exemptions</b></p> <p><b>May 2016</b></p> <p><b>Acting Head of Revenues</b></p>	<p><b>Overall Objective:</b> To ensure that the Council has effective processes in place to administer council tax discounts and exemptions. The review focused on the award / review of council tax exemptions, although any findings apply equally to discounts.</p> <p><b>Opinion:</b> Limited Assurance      <b>Summary / Actions Identified:</b></p> <p>The review identified the following area of good practice:</p> <ul style="list-style-type: none"> <li>• Systems are in place to undertake reviews of discounts and exemptions that have been awarded and remove them where they are no longer valid, utilising resources both within the Council and by third party agencies.</li> </ul> <p>The level of assurance reflects the fact that testing highlighted that established procedures to underpin the award of exemptions and discounts are not consistently complied with across the Council Tax Team and there is a lack of management oversight over this area of work which in our view, is critical, given the need to ensure that the public purse is protected.</p> <p>Areas for improvement identified include:</p> <ul style="list-style-type: none"> <li>• Raising awareness across the Council Tax Team of the processes that should be followed in relation to awarding discounts and exemptions.</li> <li>• Undertaking routine quality checks across a sample of discounts and exemptions awarded to gain assurance that procedures have been complied with.</li> <li>• To consider whether application procedures can be enhanced to minimise the risk of fraud and error.</li> </ul>

Audit Review / Actions Due / Responsible Officer(s)	Key Findings								
<p><b>Highways Minor Civil Engineering Contract - Follow up Review</b></p> <p><b>May 2016</b></p> <p><b>Head of Highways</b></p>	<p><b>Overall Objective:</b> To provide assurance that agreed actions have been implemented to ensure that the Council now has effective systems in place to manage the key risks associated with the allocation of work under the Minor Civil Engineering Contract.</p> <p><b>Opinion:</b> Moderate Assurance      <b>Summary / Actions Identified:</b></p> <p>A total of ten actions were identified and agreed in the original audit. A summary of progress made against the agreed actions is shown below:</p> <table border="1" data-bbox="602 587 1715 691"> <thead> <tr> <th data-bbox="602 587 866 655">Number of Actions</th> <th data-bbox="866 587 1167 655">Implemented</th> <th data-bbox="1167 587 1413 655">No Progress</th> <th data-bbox="1413 587 1715 655">On-going</th> </tr> </thead> <tbody> <tr> <td data-bbox="602 655 866 691">10</td> <td data-bbox="866 655 1167 691">9</td> <td data-bbox="1167 655 1413 691">0</td> <td data-bbox="1413 655 1715 691">1</td> </tr> </tbody> </table> <p>Actions that have been implemented since the last review include:</p> <ul data-bbox="560 799 2051 1005" style="list-style-type: none"> <li>• Responsibility for contract management is now clearly understood and a defined process has been put in place for allocating work under the contract.</li> <li>• Clarity has been sought with Procurement Services on standards and agreement reached when mini-competitions can be used for works covered in the contract.</li> <li>• Ensuring that the allocation of Lot one and Lot two work is in accordance with the contract / procurement rules.</li> <li>• Processes are in place to ensure that all contractors are considered for Lot three work.</li> </ul> <p>For the remaining agreed action, progress has been made although the action taken to date has not yet fully addressed the audit concerns, namely:</p> <ul data-bbox="560 1145 2051 1244" style="list-style-type: none"> <li>• Whilst processes for allocating Lot three work have been put in place which are consistent with procurement rules and are complied with, testing highlighted that opportunities still exist to improve the transparency of decision making and ensure that value for money is maximised for the Council.</li> </ul>	Number of Actions	Implemented	No Progress	On-going	10	9	0	1
Number of Actions	Implemented	No Progress	On-going						
10	9	0	1						