



Coventry City Council

Public report

Report to

Audit and Procurement Committee

26th June 2017

Name of Cabinet Member:

Cabinet Member for Strategic Finance & Resources – Councillor J Mutton

Director approving submission of the report:

Deputy Chief Executive (Place)

Ward(s) affected:

City Wide

Title:

Internal Audit Annual Report 2016-17

Is this a key decision?

No

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 2016 to March 2017 against the agreed Audit Plan for 2016-17
- 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 2016-17 (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 2016-17.
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 2016-17 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 2016-17

Appendix Two - Summary findings from key audit reports

Background papers:

None

Other useful documents:

Half Year Internal Audit Progress Report 2016-17

<http://moderngov.coventry.gov.uk/ieListDocuments.aspx?CId=553&MId=11310&Ver=4>

Internal Audit Plan 2016-17 – Quarter Three Progress Report

<http://moderngov.coventry.gov.uk/ieListDocuments.aspx?CId=553&MId=11090&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 2016-17

1. Context (or background)

1.1 The Audit and Procurement Committee approved the Council's Internal Audit Plan for 2016-17 at its meeting on the 24th October 2016. During the last financial year, the Committee has received progress reports summarising completed audit activity in October 2016 and February 2017.

1.2 This report details the performance of the Internal Audit Service against the Plan for 2016-17, 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:

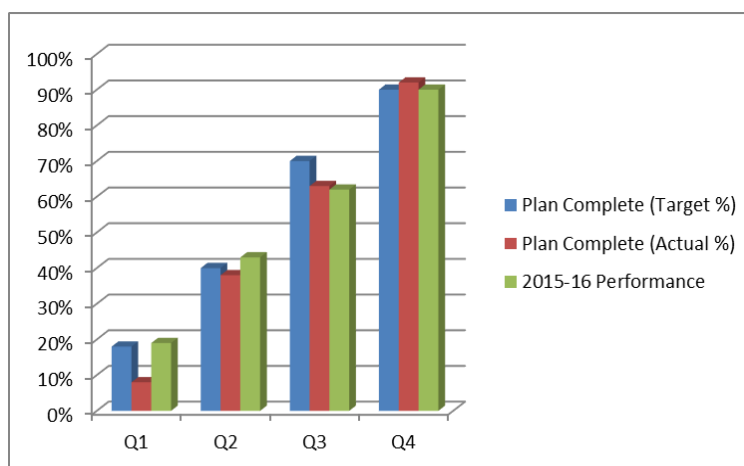
- Assessment of the performance of the Internal Audit Service against its key targets.
- A summary of the audit activity in 2016-17, and highlighting issues that have not been reported to the Audit and Procurement Committee previously, and are relevant to the overall opinion provided in section 2.3.
- 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 31st March 2017. The chart below shows that the Service met this target.

Chart One: Performance of Internal Audit 2016-17



2.1.2 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 2016-17, compared with performance in 2015-16.

Table One: KPIs for the Internal Audit Service

Performance Measure	Target	Performance 2016-17	Performance 2015-16
Planned Days Delivered	100%	95%	96%
Productive Time of Team (% of work time spent on audit work)	90%	89%	88%
Draft Report to Deadline (Draft issued in line with date agreed)	80%	70%	74%
Final Report to Deadline (Final issued within 4 weeks of draft)	80%	97%	91%
Audits Delivered within Budget Days	80%	72%	68%

Whilst improvements in performance are still required around draft report to deadline and audits delivered within budget days, this does need to be seen in the context of the size of the audit plan in that out of 58 audits completed:

- 16 over-ran in terms of budget days.
- Nine draft reports were issued after the deadline (this percentage is calculated differently as a draft report is not issued for every piece of work, for example where grant claims are audited).

Notwithstanding this, targeted actions to improve performance remain on-going. Over the last year these actions have included team development sessions, weekly progress meetings and an increased focus on time planning within individual audits. This will remain a key area of focus in 2017-18, with for example, development of a new tool to support the time monitoring of audits and the early identification of potential issues which could impact on performance to enable remedial action to be taken, and the introduction of a framework of accountability for audit team members.

2.2 Audit Activity 2016-17

2.2.1 Appendix One details the audit reviews that have been carried out in the financial year 2016-17 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

Assurance Opinion	What does this mean?
Significant	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.
Moderate	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.
Limited	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.
No	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 2016-17 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 2015-16** – In the previous annual report, the Acting Chief Internal Auditor identified a number of areas where she believed significant control improvements were required. An update on each of these areas is provided below:

- **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.** Over the course of the year meetings have been held between Internal Audit and Council Tax to discuss and agree improvements to procedures. Agreed actions included, regular quality assurance checks on a sample of exemptions / discounts awarded by the Council Tax

management with feedback given to officers, development of a desk aid for all staff to highlight the process to be followed when awarding discounts and exemption, increased verification over the award of student exemptions and formal follow-up review by Internal Audit which found that there was a significant improvement in compliance with procedures. As a result, this area is no longer viewed as requiring significant control improvements and has not been carried forward to the 2016-17 Annual Governance Statement.

- **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.** The work undertaken linked to these areas is summarised below:
 - The Risk Management Policy and Strategy has been reviewed and updated. Once formally adopted by the Council in line with the required governance process, appropriate actions will be taken to embed the new requirements of the revised Policy and Strategy, with oversight by senior management.
 - During the 2016/17 municipal year, the Council reviewed and updated its Code of Corporate Governance following the publication of new national guidance. An annual review process has been introduced to ensure that the principles of the Code are effectively embedded in the organisation and that our policies and practices meet best practice. The outcomes of the annual review, including any actions required, will be reported to the Audit and Procurement Committee and will inform the preparation of future Annual Governance Statements.
 - The Whistleblowing Procedure has been reviewed and updated. However, the principles underpinning the procedure have not significantly changed with the review and update providing clearer guidance which continue to be delivered through on-going arrangements. As a result, this is no longer viewed as requiring control improvements and has not been carried forward to the 2016/17 Annual Governance Statement.
 - Whilst the Council's Fraud and Corruption Strategy has been reviewed, work is still required to formally update this and develop a framework to underpin implementation of the strategy and the governance arrangements linked to this. The Council's Audit and Procurement Committee will have oversight of this work.

With the exception of the area of the Whistleblowing procedure, the on-going work related to the Risk Management Strategy, the Code of Corporate Governance and the Fraud and Corruption Strategy has been considered in the preparation of the Annual Governance Statement for 2016-17.

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 the Acting Chief Internal Auditor's view, sufficient assurance work has been carried out to allow her to form a reasonable conclusion on the adequacy and effectiveness of Coventry City Council's internal control environment. It is the Acting Chief Internal Auditor's opinion that that **moderate assurance** can be provided that there is generally a sound system of internal control in place designed to meet the Council's objectives. This means that there is generally an appropriate level of control for managing the majority of the significant inherent risks to the Council's objectives to a reasonable level.

In giving this opinion, assurance can never be absolute as the system of internal control is designed to manage risk to a reasonable level. It cannot eliminate all risk and can therefore only provide reasonable and not absolute assurance of effectiveness.

Through Internal Audit work, actions are agreed to improve the control environment and assist the Council in achieving its objectives. A defined process exists within the Service to gain assurance that all actions agreed have been implemented on a timely basis.

2.3.4 **Audit work undertaken** – Appendix One details the audit reviews that have been carried out in the financial year 2016-17 along with the level of assurance provided. In considering the outcome of audit activity for 2016-17, 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
2016-17	58	6	10%
2015-16	55	3	5%
2014-15	85	6	7%

Table three above indicates that the number of audits that require immediate improvements remains at a low level in comparison to the overall number of audits carried out. Whilst there has been a slight increase in the number of these reviews in 2016-17, this does not necessarily mean that the Council's overall control environment has changed in the last

year and other factors that have been considered in the assessment of the control environment include:

- The impact that the weaknesses identified have on the overall Council control environment - When considering the six 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 as in some circumstances 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. As such, an assurance level is not provided given the limited scope of such reviews.
 - In 2016-17, the audit plan included a number of reviews arising from specific requests from management to provide assurance as concerns already existed that improvements were required to manage risks effectively.

2.3.5 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 2016-17.

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. **Delivery of the Workforce Strategy** – This partly reflects the findings of the review around the governance of employment costs which is summarised at appendix two, alongside other issues identified by the Service as part of its work co-ordinating the production of the Annual Governance Statement.
2. **Adult Social Care** - This issue is not specifically linked to a particular audit but reflects our findings in a number of reviews undertaken linked to this area, including the review of CareDirector Expenditure summarised at appendix two and the review of Direct Payments which has previously been reported to Audit and Procurement Committee.

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 Director of Finance and Corporate Services

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

The City Council is required by the Accounts and Audit Regulations 2015 to approve, and subsequently publish, the Annual Governance Statement alongside the Statement of Accounts. The opinion of the Acting Chief Internal Auditor on the adequacy of the Council's internal control environment as included in the Annual Report is a key source in the preparation of the Annual Governance Statement. Reporting on progress in regards to the delivery of the Annual Audit Plan ensures that the Council meets its statutory obligations in respect of maintaining an internal audit function and represents good governance.

6. Other implications

6.1 How will this contribute to achievement of the council's Plan?

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 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. Delays in the delivery of individual audits could occur at the request of the customer, which could impact on the delivery of the plan. This risk is managed through on-going communication with customers to agree timing and identify issues at an early stage to allow for remedial action to be taken.
- 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):

Karen Tyler

Name and job title:

Acting Chief Internal Auditor

Directorate:

Place

Tel and email contact

024 7683 4035 – Karen.tyler@coventry.gov.uk

Enquiries should be directed to the above person.

Contributor/approver name	Title	Directorate or organisation	Date doc sent out	Date response received or approved
Contributors:				
Lara Knight	Governance Services Co-ordinator	Place	31/5/17	1/6/17
Paul Jennings	Finance Manager Corporate Finance	Place	31/5/17	31/5/17
Names of approvers: (officers and members)				
Barrie Hastie	Director of Finance & Corporate Services	Place	31/5/17	2/6/17
HR: Barbara Barrett	Head of Human	People	31/5/17	12/6/17

	Resources & Organisational Development			
Legal: Helen Lynch	Legal Services Manager (Place and Regulatory)	Place	31/5/17	2/6/17

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

Appendix One – Internal Audit Reviews Completed in 2016-17

Audit Area	Audit Title	Level of Assurance
Corporate Risk	ICT – Disaster Recovery*	Moderate
	ICT – Office 365/Cloud*	Significant
	Customer journey – financial processes*	Moderate
	Governance of additional employment payments*	N/a fact finding
	ICT - network infrastructure	Moderate
	ICT - service desk	Moderate
	Connecting Communities – due diligence	N/a verification
Council / Audit Priorities	Data Protection*	Moderate
	Annual leave	N/a fact finding
	Payroll – The Grange	Limited
	Direct Payments*	None
	Declarations of Interest guidance	N/a advice
	Business Continuity	Moderate
	Accounts Payable	Significant
Finance Systems	Accounts Receivable	Moderate
	Payroll	Significant
	Council Tax	Moderate
	Business Rates	Moderate
	Housing Benefits – hostels and supported accommodation	Moderate
	CareDirector expenditure*	Moderate
	Raising invoices locally	Significant
Regularity	Caredirector income	Moderate
	NHS Information Governance Toolkit	n/a verification
	Annual Governance Statement	n/a annual review
	Declaration of interest	n/a annual review
	Cycle Coventry grant	n/a verification
	S256 health grants	n/a verification
	Highways maintenance challenge fund swansell	n/a verification
	Major transport scheme grants	n/a verification
	Troubled families programme claim 1	n/a verification
	Disabled facilities grant	n/a verification
	Troubled families programme claim 2	n/a verification
	Teachers pension scheme grant	n/a verification
	School direct grant	n/a verification
	Local growth fund	Moderate
	Highways maintenance challenge fund – improvements to road network	n/a verification
	Innovate UK grant	n/a verification
	UK cite grant	n/a verification
Integrated transport grant	n/a verification	
Schools	Troubled families programme claim 3	n/a verification
	Highways capital maintenance grant	n/a verification
	Aldermans Green Primary School	Moderate
	Broad Heath School	Moderate
	Potters Green School	Limited
	Stanton Bridge Primary School	n/a fact finding

Contingency / Directorate issues	CNR	Significant
	Card refunds*	Limited
	Road marking and gulley crews	Moderate
	Governance of registrars and coroners	Significant
	School admissions	n/a fact finding
	Traffic regulation orders	n/a fact finding
	Management of plant and equipment	Limited
	Fire drill	n/s fact finding
	Job shop	Moderate
	Processing of energy bills*	Limited
Follow up	Keresley Grange Primary School	Significant
	Council tax (exemptions and discounts)*	Moderate
	ICT – major incident reviews	Moderate
	Stanton Bridge Primary School	n/a fact finding

(*) Audit findings reported to Audit and Procurement Committee during municipal year 2016-17

Appendix Two – Summary Findings from Key Audit Reports

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
<p>CareDirector Expenditure</p> <p>April 2017</p> <p>Head of Business Systems</p>	<p>Overall Objective: To ensure that the Council has effective systems in place to administer payments made through Caredirector in respect of adult social care.</p> <p>Opinion: Moderate Assurance Summary / Actions Identified:</p> <p>The review identified the following areas of good practice:</p> <ul style="list-style-type: none"> • Ensuring that manual payments outside of the Caredirector system are only made on an exception basis, minimising the risk of duplicate payments. • Mechanisms are in place to monitor the performance of the Financial Operations Team, with regular reporting to management to agree priorities. <p>The level of assurance reflects our view that on the whole, appropriate controls are in place to ensure accurate and timely payments are made, which have been embedded within the system. However, the review highlighted that there is scope to improve control over manual variations / adjustments within the system and whilst new processes provide accurate information for management oversight of budget commitments / possible overspends, from an audit perspective it is too early to assess the effectiveness of these measures for potentially managing and reducing spend.</p> <p>Areas for improvement identified include:</p> <ul style="list-style-type: none"> • Introducing risk based checks over manual variations and adjustments input to the Caredirector system. • Reviewing / taking actions on aged credit balances, including ensuring that a full reconciliation of monies recovered and written off is undertaken.

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
<p>Governance of Employment Costs</p> <p>March 2018</p> <p>Head of Employment Policy and Practice / Head of Human Resources and Organisational Development (in-conjunction with other officers)</p>	<p>Overall Objective: To ensure that the Council has effective governance arrangements in place to enforce policies and procedures in relation to the management of employment costs.</p> <p>Opinion: N/A Summary / Actions Identified:</p> <p>Whilst it was not practical to provide a level of assurance in relation to the system under review, a number of key themes were identified, including:</p> <ul style="list-style-type: none"> • The policies / associated guidance which provide the framework for the governance of employment costs have not been subject to any significant review or update since they were developed. • In a number of areas, there is a lack of transparency around individual transactions, which could leave to ineffective control of spend in this area. • Whilst we support a risk based approach to governance, the review highlighted that in some situations it is clear that there is a need to consider introducing different mechanisms to provide for more robust control where significant costs are involved. <p>Areas for improvement identified include:</p> <ul style="list-style-type: none"> • All council policies and associated guidance linked to employment costs are subject to a fundamental review to consider whether they continue to be an appropriate use of resources, are fit for purpose and are aligned to the current business model of the Council. • Standards around transparency are defined within employment policies and financial regulations, including establishing accountability for adhering to Council policies and procedures which are clearly communicated and enforced. • Introducing a governance forum (or equivalent), which is made up of appropriate officers within the Council, which is given responsibility for the approval of specific employment costs. <p>A project team has been established to take forward the recommendations arising from this review.</p>

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
<p>Data Protection</p> <p>September 2017</p> <p>Senior Information Governance Officer / Records Manager</p>	<p>Overall Objective: To ensure that the Council has implemented actions to improve the required controls to deliver data protection compliance.</p> <p>Opinion: Moderate Assurance Summary / Actions Identified:</p> <p>The review identified the following areas of good practice:</p> <ul style="list-style-type: none"> • The Information Management Strategy Group provides a clear management framework and governance to ensure that the Council has appropriate influence and oversight of data protection processes across the Council. • A range of e-learning courses has been developed to ensure a needs based data protection training programme will be available to all employees which can be matched to their individual roles and responsibilities. <p>It is clear that significant progress has been made since the Information Commissioner’s Office audit in 2015, including the good practice highlighted above. However, it is our view that further work is required to ensure that arrangements now become fully embedded. Whilst in some aspects, this can be easily addressed, there are some areas where more substantial work is required to ensure that moving forward, arrangements are robust, effective and become “business as usual” in terms of on-going actions to underpin the operational delivery of data protection compliance across the Council.</p> <p>Areas for improvement identified include:</p> <ul style="list-style-type: none"> • Undertaking further promotion of the Information Governance Handbook, including introducing easy to find links to the Handbook on the Council’s Intranet site. • Continuing the development of a separate register of Privacy Impact Assessments to ensure this is a complete record and is kept up to date, alongside the approval of all Privacy Impact Assessments by Information Governance. • Continuing the review of Data Sharing Agreements to confirm that key requirements are included in the agreements with an audit trail / evidence to support the review / outcomes.