



**Report to**

Audit and Procurement Committee

26<sup>th</sup> June 2023

**Name of Cabinet Member:**

Cabinet Member for Policy and Leadership – Councillor G Duggins

**Director approving submission of the report:**

Chief Operating Officer (Section 151 Officer)

**Ward(s) affected:**

City Wide

**Title:**

Internal Audit Annual Report 2022-23

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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 2022 to March 2023 against the agreed Audit Plan for 2022-23 and the Public Sector Internal Audit Standards.
- To provide the Audit and Procurement Committee with the Chief Internal Auditor's opinion on the overall adequacy and effectiveness of Coventry City Council's risk management, internal control, and governance arrangements for the financial year 2022-23 (as documented in section 2.4 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 2022-23.
- 2) The results of the Quality Assurance and Improvement Programme and the Chief Internal Auditor's statement on conformance with the Public Sector Internal Audit Standards.
- 3) 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 2022-23 and which are relevant to the opinion on the overall adequacy and effectiveness of Coventry City Council's internal control environment.

- 4) The opinion of the Chief Internal Auditor on the overall adequacy and effectiveness of Coventry City Council's risk management, internal control, and governance arrangements.

**List of Appendices included:**

Appendix One - Audits completed in 2022-23

Appendix Two - Summary findings from key audit reports

**Background papers:**

None

**Other useful documents:**

Internal Audit Plan 2022-23 – Quarter Three Progress Report

<https://edemocracy.coventry.gov.uk/ieListDocuments.aspx?CId=553&MId=12768&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 2022-23

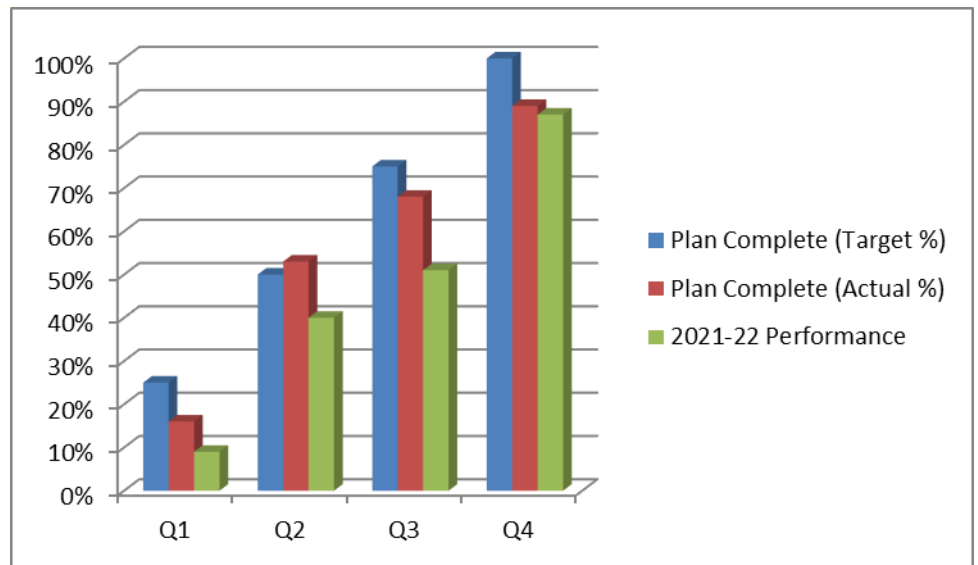
**1. Context (or background)**

- 1.1 The Audit and Procurement Committee approved the Council's Internal Audit Plan for 2022-23 at its meeting on 27<sup>th</sup> June 2022. During the last financial year, the Committee received progress reports summarising completed audit activity in January 2023 and March 2023.
- 1.2 This report details the performance of the Internal Audit Service against the Plan for 2022-23, 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.
  - The results of the Quality Assurance and Improvement Programme and the Chief Internal Auditor's statement on conformance with the Public Sector Internal Audit Standards.
  - A summary of the audit activity in 2022-23 and highlighting issues that have not been reported to the Audit and Procurement Committee previously and are relevant to the overall opinion.
  - The Chief Internal Auditor's opinion on the overall adequacy and effectiveness of Coventry City Council's risk management, internal control and governance arrangements.

**2. Options considered and recommended proposal****2.1 Performance of the Internal Audit Service**

- 2.1.1 The key target for the Internal Audit Service is to complete 90% of its agreed work plan by 31<sup>st</sup> March 2023. Whilst the plan was originally developed on the basis of an estimate of 560 available audit days, this was subsequently amended to 430 days following unplanned absence in the Service from quarter three onwards. This change was reported to the Audit and Procurement Committee in March 2023. As a result, the performance of the Service has been assessed against the revised audit plan of 430 days. As illustrated by the chart overleaf, the Service delivered 89% of this plan.

**Chart One: Performance of Internal Audit 2022-23**



Whilst it is recognised that performance is slightly below target, it is not viewed that this materially impacts on the ability to provide an annual audit opinion. Of the six audits which formed part of the 2022-23 audit plan, and which were not completed by the end of March 2023, one has now been finalised, two are at draft report stage and the remaining three are ongoing / have been rescheduled.

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 2022-23, compared with performance in 2021-22.

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

Performance Measure	Target	Performance 2022-23	Performance 2021-22
<b>Planned Days Delivered</b>	100%	96%	93%
<b>Productive Time of Team</b> (% of work time spent on audit work)	90%	91%	91%
<b>Draft Report to Deadline</b> (Draft issued in line within two weeks of deadline)	80%	60%	47%
<b>Final Report to Deadline</b> (Final issued within two weeks of deadline)	80%	92%	88%

<b>Audits Delivered within Budget Days</b> (Where budget days have not been exceeded by more than 50%)	80%	84%	76%
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Whilst performance in one area is below target (draft report to deadline) this should be viewed in the context that draft reports are not issued in all cases, e.g., grant certification work, and as such, the performance data is based on a smaller number of audits where draft reports have been issued. Ongoing monitoring of internal audit work and identifying opportunities for improvement remains a key focus for management, in line with the Public Sector Internal Audit Standards.

## 2.2 **Quality Assurance Improvement Programme**

2.2.1 The Public Sector Internal Audit Standards require that the Internal Audit Service develops and maintains a quality assurance and improvement programme that covers all aspects of the internal audit activity. In 2022-23, the Programme included the following:

- On-going supervision and review of audit work. This includes day-to-day supervision of audits, weekly performance management meetings and formal reviews of all completed work. All draft audit reports are subject to review by the Chief Internal Auditor.
- Review and update of the Service’s internal self-assessment against the Public Sector Internal Audit Standards.
- Planning for an external assessment against the Standards to be undertaken in 2023-24.
- Staff performance appraisals.

Specific improvement actions which have been delivered against the improvement plan in 2022-23 are:

- Two members of staff have commenced on the Internal Audit Practitioner Level 4 Apprenticeship, which encompasses two Institute of Internal Audit (IIA) certifications: the IIA Certificate in Internal Audit and Business Risk and the Internal Audit Practitioner.
- Delivery of in-house training sessions on the audit process and issues relevant to Internal Audit’s activity, such as ethics.
- Review and update of the school audit programme to closer align internal audit’s work to the School’s Financial Value Standard.

2.2.2 In considering the results of the quality assurance and improvement programme, it has been concluded that the Internal Audit Service partially conforms with the Public Sector Internal Audit Standards, and it is recognised that there are improvement opportunities to achieve full conformance. Where improvements have been identified, it is not considered that this materially impacts on the overall scope or operation of the internal audit activity.

2.2.3 Table two below details the current improvement plan for Internal Audit. Progress against these actions will be included in the next annual report to the Audit and Procurement Committee.

**Table Two: Internal Audit Improvement Plan**

<b>Public Sector Internal Audit Standards</b>	<b>Specific Standard</b>	<b>Improvement Action</b>
Code of Ethics	Competency	Development of a formal training strategy for Internal Audit and skills matrix
Attribute standards	Proficiency and due professional care	Development and application of a data-analytics strategy
Attribute standards	Quality Assurance and Improvement Programme	External Quality Assessment to be undertaken
Attribute standards	Quality Assurance and Improvement Programme	Introduction of a formal mechanism for capturing customer feedback
Performance standards	Managing the Internal Audit activity	Review and update of the Internal Audit Manual
Performance standards	Managing the Internal Audit activity	Development of an audit universe to support the audit planning process
Performance standards	Managing the Internal Audit activity	Review and update of audit report template

**2.3 Audit Activity 2022-23**

2.3.1 Appendix One details the audit reviews that have been carried out in the financial year 2022-23 along with the level of assurance provided. Table three below provides definitions to support the level of assurance applied to audit reviews carried out by the Service. (Note - from 2023-24 onwards, moderate assurance will be reclassified as reasonable assurance.)

**Table Three: 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

Assurance Opinion	What does this mean?
	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.

2.3.2 **Other** – A summary of the findings of key audits that have not already been reported to the Committee during municipal year 2022-23 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.

2.3.3 **Follow up of Disclosures made in the Internal Audit Annual Report 2021-22** – In the 2021-22 Internal Audit Annual report no issues were identified for consideration in preparation of the Annual Governance Statement.

2.4 **Annual Report - Opinion on the Overall Adequacy and Effectiveness of Coventry City Council's Risk Management, Internal Control and Governance Arrangements**

2.4.1 The Public Sector Internal Audit Standards (PSIAS) highlights that a key responsibility of Internal Audit is to provide an annual internal audit opinion and report that can be used to inform the Annual Governance Statement. The opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and internal control.

2.4.2 **Audit Opinion / Disclosures** – In the Chief Internal Auditor's view, sufficient assurance has been obtained to form a reasonable conclusion on the adequacy and effectiveness of Coventry City Council's risk management, internal control, and governance arrangements. This takes into account the internal audit work performed during 2022-23 and other sources of assurance, specifically:

- The work of the Corporate Governance Steering Board of which the Chief Internal Auditor is a member of.
- The Corporate Risk Register.
- Assessment by the Senior Leadership Team of the Council's compliance with the Financial Management Code.

It is the Chief Internal Auditor's opinion that **moderate assurance** can be provided that there is generally an effective and adequate framework of governance, risk management and 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. Through Internal Audit work, actions are agreed to improve the governance, risk management and the internal 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.

In giving this opinion, assurance can never be absolute. It cannot eliminate all risk and can therefore only provide reasonable and not absolute assurance of effectiveness.

2.4.3 **Audit work undertaken** – Appendix One details the audit reviews that have been carried out in the financial year 2022-23 along with the level of assurance provided. In considering the outcome of audit activity for 2022-23, an assessment is initially made of the number of 'limited' or 'no' assurance audits (as these require immediate improvements) in comparison with the results from the previous two years.

**Table Four: 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
2022-23	56	3	5%
2021-22	47	2	4%
2020-21	49	6	12%

Table four above indicates that the percentage of audits with “limited” or “no” assurance in 2022-23 is consistent with the previous year. Consequently, it is the Chief Internal Auditor’s opinion that providing an opinion of moderate assurance remains appropriate based on the definition of assurance in table three in section 2.3.1 and other factors that have been considered in the assessment of the control environment which include:

- The impact that the weaknesses identified have on the overall Council control environment.
- Whether there is any specific change in audit focus / approach that may have impacted on the number of 'limited' or 'no' assurance audits. Specifically, in 2022-23, the following factors may have impacted on the number of “limited” or “no” assurance audits:
  - The number of grant schemes which required verification by Internal Audit as part of the grant terms and conditions was higher than normal, due to several additional Covid-19 specific grants which had been provided to the Council and which required verification in 2022-23. Given that this work has to be delivered by the deadline set by the grant funder in order to avoid the risk of clawback, these reviews were given priority.
  - A small number of fact-finding reviews have been undertaken as in some circumstances this approach is viewed as a more appropriate way of responding to identified / emerging risks. This includes reviews linked to providing advice and the assessment of risks and as such, a formal assurance level is not provided given the specific scope of such reviews.

2.4.4 **Issues relevant to the preparation of the Annual Governance Statement** – In undertaking the assessment of the Council's arrangements, the Chief Internal Auditor has reviewed whether, in her opinion, there are any areas that need to be considered when the Council produces its Annual Governance Statement for 2022-23.

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 significant 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.



For 2022-23, no issues have been identified for consideration in preparation 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 Chief Internal Auditor on the adequacy of the Council's risk management, internal control and governance arrangements is a key source in the preparation of the Annual Governance Statement.

### **5. Comments from the Chief Operating Officer (Section 151 Officer) and the Chief Legal Officer**

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 risk management, internal control and governance arrangements as included in the Annual Report is a key source in the preparation of the Annual Governance Statement. Reporting on progress regarding 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 One Coventry 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) climate change and the environment**

No impact

**6.6 Implications for partner organisations?**

None

**Report author:**

**Name and job title:**

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**Service Area:**

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Paul Jennings	Finance Manager Corporate Finance	Finance	07/06/23	12/06/23
<b>Names of approvers: (officers and members)</b>				
Barry Hastie	Chief Operating Officer (Section 151 Officer)	-	07/06/23	16/06/23
Councillor G Duggins	Cabinet Member for Policy and Leadership	-	07/06/23	07/06/23

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## Appendix One – Internal Audit Reviews Completed in 2022-23

Audit Area	Audit Title	Assurance
<b>2021-22 B/Fwd</b>	Budgetary Control	Significant
	ICT Monitoring, Logging and Event Management	Moderate
	Plas Dol-y-Moch Recruitment	Fact Finding
	Formal Follow Up – IT Disaster Recovery and Business Continuity *	Moderate
<b>Corporate Risk</b>	EDI in Recruitment *	Moderate
	CWRT Loanbook Health Check	Health Check
	Software Asset Management*	Moderate
	Motion Service Desk	Significant
	Physical Security and Environmental Protection	Significant
<b>Council / Audit priorities</b>	IR35 Compliance	Moderate
<b>Financial Systems</b>	Payroll 21-22	Significant
	Business Rates 21-22*	Limited
	CareDirector 21-22*	Limited
	Accounts Payable	Significant
	Council Tax	Significant
	Accounts Receivable	Significant
<b>Regularity</b>	Baginton Fields School	Moderate
	Arts Council grant	Verification
	John Shelton Community Primary School	Moderate
	PSDS grant core	Verification
	PSDS grant schools	Verification
	Homelessness Top Up grant	Verification
	Protect and Vaccinate Grant	Verification
	Growth Hub core grant	Verification
	Growth hub peer to peer grant	Verification
	Disabled facility grant	Verification
	Teachers Pension Statements	Verification
	Bus subsidy grant	Verification
	Highways grants	Verification
	Adult Weight Management grant	Verification
	Contain Outbreak Management Fund grant	Verification
	Sherbourne Fields Teaching School grant	Verification
	Allesley Primary School related party transactions	Fact Finding
	Test and Trace grant	Verification
	Innovate UK Savor grant	Verification
	Innovate UK Urban Air Port grant	Verification
	Drug Treatment Crime and Harm Reduction activity grant	Verification
	Test and Trace Support Payments grant	Verification
	Templars Primary School	Significant
	Post Payment Assurance Business Grants	Verification
	Green Homes Grant	Verification
	Limbrick Wood Primary School	Limited
	Annual Governance Statement	Verification
	Supporting Families Programme	Verification

	Biodiversity Net Gain grant	Verification
	Declarations of Interest	Verification
<b>Directorate Issues</b>	Transfer of Coventry Communications Centre to Whitley Depot	Significant
	Cash controls Homes for Ukraine	Fact Finding
	ICT Storeroom Physical Security	Fact Finding
	Pot Hole Pro Business Case Health Check – stage one	Health Check
	Statutory Compliance	Moderate
<b>Formal Follow Ups</b>	Health and Safety Audit Programme	Moderate
	Asset Management, Patching & Secure Configuration	Moderate
	Cyber resilience	Moderate
	Mobile Devices	Moderate
	Parking Enforcement	Moderate

(\*) Audit findings reported to Audit and Procurement Committee during municipal year 2022-23

## Appendix Two – Summary Findings from Key Audit Reports

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
<p><b>Limbrick Wood Primary School</b></p> <p><b>September 2023</b></p> <p><b>Head Teacher</b></p>	<p><b>Overall Objective:</b> To provide assurance that robust systems and controls exist to support the effective management of the School's resources.</p> <p><b>Key controls assessed:</b></p> <ul style="list-style-type: none"> <li>- Effective systems are in place to manage the School's finances.</li> <li>- All expenditure is committed in line with documented procedures, is appropriately authorised and is accounted for.</li> <li>- All income due to the School is collected, accounted for and banked in full.</li> <li>- Effective systems exist over the School's banking arrangements.</li> <li>- All School assets are securely held minimising the risk of theft and losses.</li> </ul> <p><b>Opinion:</b> Limited Assurance. We acknowledge that the School has been without a Business Manager for more than a year. However, by not putting in place arrangements to ensure that the School can access adequate financial expertise, this has undermined the robustness of the system of internal control and has resulted in a number of lapses in the School's finance administration. Consequently, this places at risk the School's ability to ensure effective management of the School's resources, alongside increasing the risk of fraud and error occurring.</p> <p><b>Agreed Actions – risk level high (H) or medium (M):</b></p> <ul style="list-style-type: none"> <li>• Take appropriate action to ensure that official purchase orders are raised / issued at the time the order is placed with the supplier. (H)</li> <li>• Ensure that in respect of all purchases, the School complies with procurement rules / legislation or where exceptions to this are required, approval is sought in advance from the Governing Body. (M)</li> <li>• Improve the controls over purchasing card arrangements. (M)</li> <li>• Ensure that in the event that banking discrepancies are identified, these should be investigated and the outcome reported to the Head Teacher. (H)</li> <li>• Ensure that safe keys are allocated to named individuals and are held securely. (M)</li> <li>• Ensure that bank statements are reconciled on a timely basis. (H)</li> <li>• Take action to resolve issues around outstanding debts and ensure that all debts are pursued in accordance with the debtor's policy. (M)</li> <li>• Ensure virements are reported in accordance with the provisions of the Fair Funding Scheme of Delegation. (M)</li> </ul>

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
	<ul style="list-style-type: none"> <li>• Ensure that the register of business interests is updated on an annual basis and includes all appropriate staff at the School. (M)</li> <li>• Put in place appropriate arrangements to ensure the School has access to an adequate level of financial expertise. (H)</li> </ul>