

Committee(s)	Dated:
Audit and Risk Management Committee	7 May 2019
Subject: Head of Internal Audit Opinion and Annual Report 2018/19	Public
Report of: Head of Audit & Risk Management	For Information
Report author: Pat Stothard – Head of Audit & Risk Management	

Summary

The Public Sector Internal Audit Standards require the Head of Internal Audit and Risk Management to provide the Audit and Risk Management Committee with an annual internal audit opinion. The opinion is used to help inform the City of London Corporation's Annual Governance Statement.

The following opinion is provided for the 12 months ended 31 March 2019:

"I am satisfied that sufficient quantity and coverage of internal audit work has been undertaken to allow me to draw a reasonable conclusion as to the adequacy and effectiveness of the City's risk management, control and governance processes.

*In my opinion, **the City has adequate and effective systems of internal control in place to manage the achievement of its objectives.** In giving this opinion, it should be noted that assurance can never be absolute and, therefore, only reasonable assurance can be provided that there are no major weaknesses in risk management, governance and control processes. The matters raised in this report are only those which came to my attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.*

Notwithstanding the overall opinion, internal audit's work identified a number of opportunities for improving controls and procedures which are documented in each individual audit report."

Ten areas reviewed are highlighted in the internal audit opinion, which resulted in 'Limited' (Red) assurance opinions. Of note is that four of the six audits finalised in respect of the City of London Police have been assessed as Limited assurance reports, with nine red and 31 amber priority recommendations.

It is noted that there remain a significant percentage of recommendations (52%) which are only partially implemented, or had not been implemented or evidence had not been provided to demonstrate implementation by the due date agreed with management. It is further noted that the quality of status updates from some departments falls short of expectations, resulting in additional work for Internal Audit staff. This issue has been raised with the departments concerned and will be kept

under review. These should continue to be focuses for challenge to officers by the Audit & Risk Management Committee.

Recommendation

Members are asked to:

- Note the Head of Internal Audit Opinion for 2018/19.

Main Report

Background

Scope and purpose of Internal Audit

1. The Accounts and Audit Regulations 2015 came into effect on 1 April 2015 and require the City to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards or guidance.
2. This opinion forms part of the framework of assurances that is received by the City and should be used to help inform the Annual Governance Statement. Internal Audit also has an independent and objective consultancy role to help line managers improve risk management, governance and control.
3. Our professional responsibilities as internal auditors for the year ended 31 March 2018 are set out within Public Sector Internal Audit Standards (PSIAS) produced by the Internal Audit Standards Advisory Board.
4. The report summarises the internal audit activity and, therefore, does not include all matters which came to our attention during the year. Such matters have been included within our detailed reports to the Audit Committee during the course of the year.
5. The Head of Internal Audit and Risk Management is satisfied that sufficient quantity and scope of internal audit work has been undertaken to be able to draw a reasonable conclusion as to the adequacy and effectiveness of the City's risk management, control and governance processes. In reaching this conclusion the Head of Internal Audit and Risk Management has taken into account:
 - a. The audit work completed by the Internal Audit function throughout the entire year;
 - b. Key issues arising from this work;
 - c. Management responses to internal audit work; and,

- d. The Follow-Up process undertaken throughout the year.
6. This report is supported, at **Appendix 1**, by a summary of all audit work finalised during the year. This work has been reported to the Audit and Risk Management Committee throughout the year.

Basis of Annual Opinion

7. The following form the basis of the Annual Opinion:
 - Assessment of the quantity and coverage of risk based internal audit work against the 2018/19 internal audit plan to allow a reasonable conclusion as to the adequacy and effectiveness of the City's risk management, control and governance processes;
 - Review of the reports from the audits undertaken during the year by Internal Audit and assessment of the assurances given;
 - Consideration of any significant recommendations not accepted by management and the consequent risks, of which there were none;
 - Assessment of the status of recommendations identified as not implemented, as part of Internal Audit follow-up reviews and subsequent progress tracking;
 - Consideration of the effects of any significant changes in the City's objectives or systems;
 - Review and consideration of matters arising from reports to the Audit and Risk Management Committee;
 - Consideration as to whether there were any limitations which may have been placed on the scope of internal audit.

Annual Opinion

8. Sufficient quantity and coverage of internal audit work has been undertaken to allow a reasonable conclusion to be drawn as to the adequacy and effectiveness of risk management, control and governance processes. It should be noted that the opinion is based only on reports which have been finalised. A number of reports have yet to be finalised from the 2018/19 audit plan; these will feed into the opinion for 2019/20.
9. The City has adequate and effective systems of internal control in place to manage the achievement of its objectives. In giving this opinion, it should be noted that assurance can never be absolute and, therefore, only reasonable assurance can be provided that there are no major weaknesses in these processes or that no fraud exists within the systems and processes subject to audit review.

10. Notwithstanding the overall opinion, Internal Audit's work identified a number of opportunities for improving controls and procedures which management has accepted and are documented in each individual audit report. Ten "Limited (Red) Assurance" reviews have been produced which have been accepted by management who have advised that control improvements are being implemented. These are summarised below:

Dept	Audit	Assurance	Red	Amber	Green	Total
Corporate	GDPR Readiness	Limited	2	0	5	7
CoLP	Key Financial Controls	Limited	3	10	0	13
CoLP	Police Bank Accounts	Limited	2	1	2	5
CoLP	Police Seized Goods	Limited	3	11	0	14
CoLP	Freedom of Information Requests	Limited	1	3	4	8
CLS	Cyber Security	Limited	2	11	0	13
CLFS	Cyber Security	Limited	3	11	0	14
DBE	Section 106 Agreements	Limited	1	7	5	13
DCCS	Community Centre Revenue	Limited	1	6	1	8
DCCS	Adult Education Skills Service Contract Arrangements	Limited	4	5	4	13

Key Themes Identified

11. Of note is that four of the six audits finalised in respect of the City of London Police have been assessed as Limited assurance reports, with nine red and 31 amber priority recommendations. There will be an ongoing focus on key risk areas within the City of London Police by Internal Audit, working closely with the Police Authority. .

12. It is noted that there remain a significant percentage of recommendations (52%) which are only partially implemented, or had not been implemented or evidence had not been provided to demonstrate implementation by the due date agreed with management. It is further noted that the quality of status updates from some departments falls short of expectations, resulting in additional work for Internal Audit staff. This issue has been raised with the departments concerned and will be kept under review. These should continue to be focuses for challenge to officers by the Audit & Risk Management Committee.

Direction of Travel

13. Set out below is a comparison of the percentage of internal audit reports receiving Limited, Moderate and Substantial assurances over the last four financial years. Members will note that the percentage of Limited and Substantial assurance reports in 2018-19 has increased from the previous two years and the percentage of Moderate assurance reports has decreased. Once again no Nil assurance assurances have been given.

Financial Year	2018-19 %	2017-18 %	2016-17 %	2015-16 %
Substantial Assurance Reports	19.5	13	40	31
Moderate Assurance Reports	61	74	50	62
Limited Assurance Reports	19.5	3	10	7
Nil Assurance Reports	0	0	0	0

14. It should be noted that the rise in Limited assurance reports during the year is in part due to officers raising specific areas of concern with Internal Audit either during the audit planning stage or during the year so that these departmental risk areas can be reviewed. This pro-active approach by officers is to be commended.

Conformance with the Public Sector Internal Audit Standards

15. The outcome of the External Quality Assessment undertaken by Mazars, finalised in 2017-18, confirmed that the internal audit function at the Corporation **Generally Conforms** to the Public Sector Internal Audit Standards. External assessments are required to be undertaken every five years.

Review of Performance

16. The Internal Audit team aim to maintain a high level of quality in the delivery of their work. Key outcomes were:
- a. The Internal Audit function achieved delivery of 92% of the plan by 31st March 2019.
 - b. The target of members of the team holding a relevant qualification continues to be met.

Conclusion

17. Internal Audit work continues to identify improvement areas for management; albeit, the overall opinion provided on the City's internal control environment is that it remains adequate and effective. There is a high level of acceptance of recommendations.

Appendices

- Appendix 1 – Overview of finalised internal audit reviews for 2018-19.

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