

<b>Committee(s):</b> Audit and Risk Management Committee – For Information	<b>Date(s):</b> 14/07/2020
<b>Subject:</b> Internal Audit Update Report	<b>Public</b>
<b>Report of:</b> Head of Audit and Risk Management	<b>For Information/Discussion</b>
<b>Report author:</b> Matt Lock, Head of Audit and Risk Management	

### Summary

This report provides an update on Internal Audit activity since the last Internal Audit Update Report presented to the informal meeting of the Committee in March 2020. The report summarises work completed, progress against the 2020/21 Internal Audit Plan and the impact of the COVID-19 outbreak on this. Finally, the report describes the findings of Audit follow-up work completed to verify the implementation of Audit recommendations.

The report makes one escalation in relation to a review of Corporate Wide Project Management, where it has not been possible to obtain a satisfactory management response to all of the issues raised. A Red assurance rating has been given in the Draft Audit Report with 3 Red priority recommendations made; within currently defined roles and responsibilities, there is no senior leader with the remit to resolve 2 of these issues.

### Recommendation(s)

Members are asked to:

- provide comment on the issues raised in respect of arrangements in place for Project Management; and,
- note the report.

### Main Report

#### Background

1. This report provides an update on the work of Internal Audit since 1 April 2020 and the position reported to the informal meeting of the Audit and Risk Management Committee on 31 March 2020.

## Completed Internal Audit Work

2. 15 Final Audit Reports have been issued since the March update, 6 Green Assurance ratings were given, 9 Amber Assurance ratings and zero Red Assurance Ratings. Those audit reviews are:

Final Audit Reports Issued		Recommendations Made		
Department/Audit	Assurance Rating	Red	Amber	Green
Chamberlain's - COUNCIL TAX	Green	0	0	1
Barbican Centre - DATA SECURITY	Amber	0	2	4
City of London Freemen's School - KEY CONTROLS	Amber	0	2	0
Sir John Cass School - CHILDREN & FAMILY CENTRE	Amber	0	1	0
Barbican Centre - ARTISTIC EVENTS DECISION-MAKING & EVALUATION	Green	0	0	0
Corporate Wide - HIGHWAYS REPAIRS AND MAINTENANCE CONTRACT	Green	0	2	0
Sir John Cass School - KEY CONTROL PROCESSES	Amber	0	5	1
City Surveyor's - FRAUD RISK MANAGEMENT	Amber	0	3	1
Chamberlain's - BUSINESS RATES	Green	0	0	3
Open Spaces - INCOME CHECKS	Amber	0	5	5
Chamberlain's - IT SERVICE MANAGEMENT (ITIL)	Green	0	0	4
City of London Police - PAYROLL AND OVERTIME	Amber	0	4	0
Community and Children's Services - DIRECT PAYMENTS	Amber	0	7	1
City of London Police - PREMISES EXPENDITURE	Amber	0	11	2
Chamberlain's - PENSION FUND INVESTMENT	Green	0	2	0

3. In addition to the above, there is one audit review from the 2019/20 Audit Plan to be brought to the attention of Members; Corporate Wide Project Management. This review is currently held at Draft Report stage as we have not been able to secure a suitable management response to the issues raised. A Red assurance rating was provided with three key issues raised, Red Priority recommendations were made in respect of these as follows:

- **Project managers are miscoding expenditure in relation to Capital and Supplementary Revenue Projects** – this bypasses system controls that are in place to ensure that spending is in accordance with agreed budget and that project delivery proceeds only in accordance with approvals obtained. This is within the remit of the Chamberlain/Deputy Chamberlain to resolve and a solution has been identified by the Capital Accounting Team.
- **Project Managers seek retrospective approval for budget increases on projects too often** – this undermines the governance process and hinders the overall ability to manage the City Corporation's overall Capital and Supplementary Revenue Budget. This largely comes down to poor discipline as there are processes to obtain, or at least seek, approval under urgency and ahead of committing to expenditure. Our recommendation covered training but, more importantly, that the Corporate Programme Management Office

introduce increased supervision/monitoring and follow-up action. The Corporate PMO do not see this as within their remit or mandate.

- **There are a number of projects being managed under local risk that exceed the financial thresholds that determine application of the Gateway Process, there are no expectations in relation to the application of consistent formal governance for such projects** – current project management guidance makes no reference to such projects and so there is no corporate instruction as to whether or not the Gateway Process should apply, the default position has been that it doesn't. The Internal Audit concern is not that the Gateway Process should be applied, rather that, if deemed not appropriate, alternate governance arrangements should be in place and that there should be joined up oversight across the organisation of all significant projects. Again, the Corporate PMO felt it was outside of their remit to seek to influence the way that these projects are managed.

This report has recently been escalated to the Town Clerk and Chief Executive for comment, and the views of the Committee on the above are welcome.

### **Delivery of Planned Internal Audit Work**

4. Progress in delivering the 2020/21 Internal Audit Plan has been impacted by the COVID-19 outbreak in so far as that it has not been possible to work towards full delivery of the planned programme of work, there are three main factors:

- Some service areas have not been able to accommodate Internal Audit work as a result of their operational response to COVID-19
- Some service areas are not fully operational and are unable to accommodate Internal Audit work in a remote capacity
- Increased reliance on email for requests for information and resolving queries has led to an increase in elapsed time to complete fieldwork.

5. Nonetheless, work is in progress for 13 planned audit reviews, one of which is at draft report stage, with a further 8 reviews allocated to the in-house team and being initiated for delivery. In total, this comprises 257 audit days from a plan of 1071 days. As a reminder, the plan was prioritised as follows:

- **Priority 1:** activity that directly links to Corporate Plan Outcomes and/or Corporate Risks, completion of this work within 2020/21 is considered essential to providing the annual opinion.
- **Priority 2:** activity that is more closely aligned to the delivery of top-level departmental objectives or risks and key corporate systems. Periodic audit coverage is considered sufficient to inform the annual opinion, auditable areas are identified from a rolling 3-year programme.
- **Priority 3** – lower risk activity where the risk of non-delivery of objectives may be contained at a departmental level, includes advisory assurance work. Periodic audit coverage is considered useful in informing the annual opinion, auditable areas are, again, identified from a rolling 3-year programme. Any P3 work not delivered in year will be considered for escalation to P2 for the subsequent year.

- **Priority 4** – activity that is focussed on local business objectives and of low financial materiality, risk/impact of failing to deliver objectives may be contained at a service level. Any P4 work not delivered in year will be considered for escalation to P3 for the subsequent year.
6. The workforce of Mazars, our third-party partner provider of Internal Audit resource, is still furloughed. The Head of Audit and Risk Management is in discussion with Mazars in relation to bringing resource back over the summer period, subject to City of London service departments being able to accommodate a fuller programme of Internal Audit reviews.
  7. Unplanned work has been undertaken in relation to COVID-19 Business Rates Grants verification checks, working with the Corporate Anti-Fraud Manager and the Business Rates team. We have also introduced a regular programme of staff leaver verification checks, applying a continuous auditing methodology, in recognition of the increased risk around IT network security at the present time.

### **Audit Follow-up Reviews**

8. Nine Internal Audit Follow-up reviews have been undertaken to assess progress in the implementation of Audit recommendations, the outcome of those reviews is summarised below:
  - in 4 cases, all recommendations made were found to have been implemented, these Audit reviews are now closed (a total of 27 recommendations)
  - in 4 cases, significant progress has been made in implementing recommendations (42 recommendations implemented from a total of 52), in all 4 cases a revised assurance rating of Amber (down from Red) has been provided. There are no issues to escalate within the 10 outstanding recommendations.
  - in 1 case, Barbican Centre – Strategic Planning, Monitoring and Implementation, we were unable to complete our follow-up review as the department did not respond to our requests for information.

We will undertake further follow-up work in relation to the remaining outstanding recommendations and report back to the next meeting.

9. The full programme of follow-up work is included as Appendix 1 to this report, we will continue to add to this programme as Audit reviews are completed.

### **Impact of COVID-19**

10. While departmental engagement with planned Audit work is improving, it is anticipated that disruption will continue throughout the second quarter of the year, it will not be possible to deliver the full programme of work as intended. Available resources for the year are constrained, estimated to be reduced from approximately 1080 days to a likely minimum of 812 days, depending on arrangements that can be reached with Mazars. Work in the remainder of the year will focus on delivery of the remaining 369 days of planned Priority 1 work yet to be allocated, before turning to the Priority 2 work. All efforts will be made

to provide Audit coverage across all remaining Priority 2 work although this will be on a lighter touch basis, spreading available resources across the plan. The High-Level Internal Audit Plan is attached as Appendix 2 to this report for information.

11. This position will be kept under review and updates will be provided to this Committee at subsequent meetings.

## **Conclusion**

12. Delivery of work against the 2019/20 Internal Audit Plan has been impacted by COVID-19 through a combination of reduced resources available and constraints on our ability to work with service departments during the pandemic. Good progress has been demonstrated in implementing recommendations made.

## **Appendices**

- Appendix 1 – Follow-up Programme of Activity
- Appendix 2 – 2020/21 High-level Internal Audit Plan

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