

<b>Committee(s)</b>	<b>Dated:</b>
Audit and Risk Management Committee	13/05/2024
<b>Subject: Head of Internal Audit Annual Opinion</b>	<b>Public</b>
<b>Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?</b>	<b>N/A</b>
<b>Does this proposal require extra revenue and/or capital spending?</b>	<b>N</b>
<b>If so, how much?</b>	<b>N/A</b>
<b>What is the source of Funding?</b>	<b>N/A</b>
<b>Has this Funding Source been agreed with the Chamberlain's Department?</b>	<b>N/A</b>
<b>Report of: the Chamberlain</b>	<b>For Decision</b>
<b>Report author: Matt Lock</b>	

### Summary

The Public Sector Internal Audit Standards require the Head of Internal Audit to provide the Audit and Risk Management Committee with an annual Internal Audit opinion on the effectiveness of the organisation's system of internal control and arrangements for governance and risk management.

The following opinion is provided for the 12 months ended 31 March 2024:

*"On the basis of Internal Audit work undertaken in 2023/24, I am able 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 by Internal Audit are only those which came to my attention during the course of 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 to management."*

### Recommendation(s)

Members are asked to:

- Note the report and the opinion provided by the Head of Internal Audit.
- Consider the proposal of the Head of Internal Audit to request additional funding of £165k to expand and enhance the programme of Internal Audit work.

## **Main Report**

### **Background**

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 and associated guidance.
2. The professional responsibilities of Internal Auditors are set out within the Public Sector Internal Audit Standards (PSIAS) produced by the Internal Audit Standards Advisory Board. Supplementary guidance is also provided by CIPFA in their "Local Government Application Note".
3. The work of Internal Audit forms the basis of an Annual Head of Internal Audit Opinion which is part of the framework of assurances that is received by the City of London Corporation and helps to inform the Annual Governance Statement. Internal Audit also has an independent and objective role to support management in improving governance, control and risk management through the provision of advice and guidance.
4. This report summarises the overall outcomes from Internal Audit work during 2023/24, represented in the Internal Audit Dashboard at Appendix 1. The report does not include detail in relation to the findings of individual audit reviews, as previously reported to the Audit and Risk Management Committee during the year as part of the routine Internal Audit Update reports.

### **Basis of Annual Opinion**

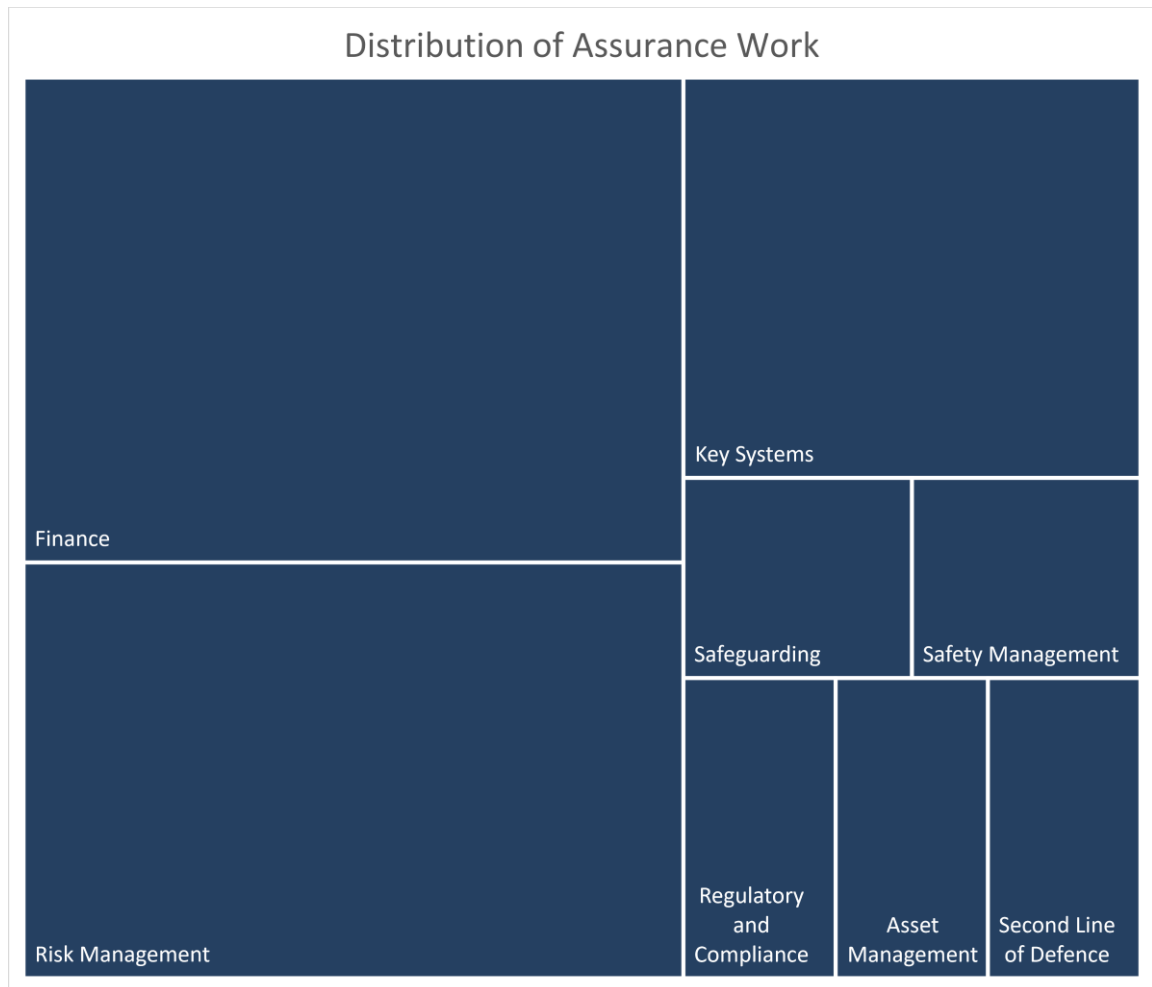
5. In forming an annual opinion, the Head of Internal Audit has considered:
  - Work completed by the Internal Audit team throughout the year, key issues arising from this and assurance opinions provided.
  - Management responses to Internal Audit work, with particular attention to the acceptance of recommendations made to address significant issues (no exceptions reported).
  - Progress made by management in implementing Internal Audit recommendations.
  - The effects of any significant changes in the City's objectives, systems or external factors.
  - Any limitations which may have been placed on the scope of Internal Audit (of which there were none).

### **Head of Internal Audit Annual Opinion**

6. Owing to vacancies and long-term sickness absence at the Senior Auditor level, at no point in the year was the Internal Audit team fully staffed. Consequently, a smaller programme of work was delivered than had been anticipated at the start of the year; with capacity for some 425 Audit days vs the base target of 600 Audit Days. The Head of Internal Audit provides an opinion the adequacy and

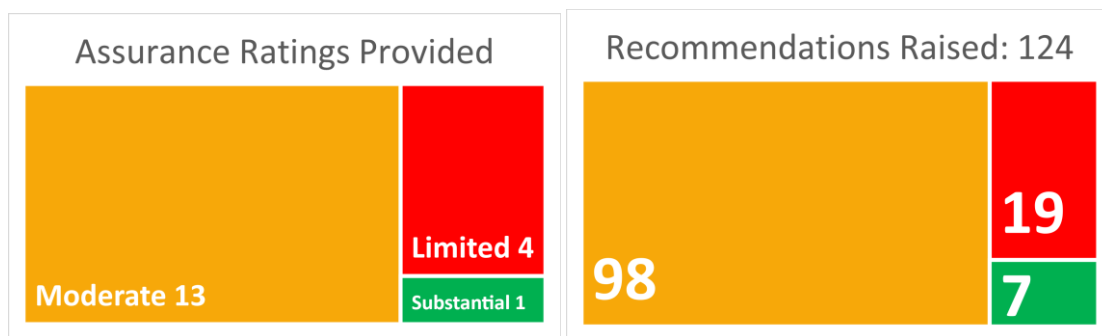
effectiveness of the City Corporation’s control, governance and risk management processes based on work undertaken. It is the Head of Internal Audit’s view that so small a programme of work is not sustainable in the longer term for an organisation of the scale and complexity of the City of London Corporation. Should the size and spread of the Internal Audit Programme of work not be increased, it may not be possible to provide an opinion in future years.

- The programme of Internal Audit work for 2023/24 was actively managed throughout the year to reflect the resources available and also to accommodate emerging priorities. Regular updates have been provided to the Audit and Risk Management Committee, covering outcomes from completed work and detail on the forward programme of work. A total of 18 final Internal Audit reports were issued in 2023/24, covering Finance, Key Systems, Risk Management, Safety Management, Safeguarding, Regulatory and Compliance, Asset Management and Second Line of Defence. The proportionate distribution is shown below.



- Having considered the findings of completed Internal Audit reviews, there are no apparent themes other than that, in the main, issues raised relate to the consistent and correct application of internal controls rather than an absence of controls.

9. On the basis of work undertaken, **it is the Head of Internal Audit’s opinion that the City of London Corporation 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 examined or, indeed, those not examined. It is also important to note that a smaller programme of Internal Audit work results in a lower level of confidence in this opinion.
10. Internal Audit’s work identified a number of opportunities for improving controls and procedures, set out in our Audit reports to management. The range of assurance levels provided in our audit coverage and the number of Red, Amber and Green priority recommendations made is summarised below.



11. While the number of individual Limited, Moderate and Substantial assurance ratings provided is relevant in forming the Head of Internal Audit annual opinion, there are other factors that must be considered: Responses from management to Audit reviews; the integrity of action/recommendation implementation plans and the timescales agreed for resolving issues raised. Internal Audit reports have been well received and management action plans have been suitably robust.
12. Internal Audit have undertaken 34 follow-up reviews to verify the implementation of recommendations made, some of which have been 2<sup>nd</sup> or 3<sup>rd</sup> examinations of previously completed audits. A higher number of recommendations have been raised in the year than have been closed from the work of previous years, there are two drivers for this; a large proportion of the recommendations raised were from 3 Audit reviews and, the limited capacity within the team prevents follow-up review from taking place promptly after the agreed implementation dates.

### External Factors Having a Bearing on the Annual Opinion

13. Financial pressures and organisational redesign have impacted the level of resource available for Internal Audit work. Priority has been given to work which most directly informs the annual opinion. It has also been necessary to consider the skills and experience of the team in managing the programme of work, in accordance with the Public Sector Internal Audit Standards.

## Conformance with the Public Sector Internal Audit Standards

14. The Public Sector Internal Audit Standards (PSIAS) require an External Quality Assessment (EQA) to be undertaken at least once every 5 years with a self-assessment in the intervening years. Conformance with the standards is assessed as one of the following categories (defined in Appendix 2):
  - Generally Conforms
  - Partially Conforms
  - Does Not Conform
15. The EQA was last completed in 2022/23 and reported in July 2023, confirming that the Internal Audit function *Generally Conforms* to the standards. The self-assessment for 2023/24 confirms the *Generally Conforms* outcome although raises one point of non-conformance in relation to resourcing, moving from partial to non-conformance.
16. The Global Institute of Internal Auditors (the standard setter for the profession) has published new Global Internal Audit Standards, these are mandatory from January 2025. It is anticipated that CIPFA will issue an update to the PSIAS although in the meantime, the Internal Audit Service will work towards alignment to the Global Standards. The Internal Audit Standards don't just apply to the operation of the Internal Audit function but include expectations of the organisation, it is commonly the case that it falls to the Head of Internal Audit to educate and inform the wider organisation in this regard and will be the subject of further reports to this Committee and other communication across the organisation. The requirements of the new standards have become more specific and rigorous, while the Head of Internal Audit will lead in influencing organisational conformance, the Audit and Risk Management Committee will have a key role to play in supporting and driving this.

## Resourcing

17. The financial resource allocation for the City of London's Internal Audit service has reduced by 37% in real terms over the past 4 years (considering cumulative inflation of 23% over this period).
18. Reductions to the resource allocation for Internal Audit since 2019/20 are not proportionate to or in line with the changes to the expenditure profile and operations of the City of London Corporation which have, in fact, increased. The Head of Internal Audit considers the current resource allocation to be insufficient to support the provision of an effective Internal Audit service for the organisation. This is supported by internal and external analysis, outlined in the "Internal Audit – Additional Resource Request Business Case" attached as Appendix 3.

19. Vacancy and sickness absence combined with the limited experience of Auditors in training (50% of the current operational team structure) have resulted in a 75% reduction in the number of Internal Audit reviews delivered in 2023/24 compared to 2019/20. With this level of coverage, it is significantly more challenging to be able to form an overall opinion on the adequacy of the internal control environment.
20. An increase in the level of non-compliance with Financial Regulations and other standard operating procedures has also been observed over recent years and this is, in part, considered to be attributable to a reduced Internal Audit presence across the organisation.
21. The reduction in Internal Audit Management capacity has meant that it is not possible to maintain regular liaison with all Chief Officers and their Senior Leadership teams. This, and the lack of suitably qualified and experienced Auditors to complete Internal Audit reviews, are drivers in the move away from longer term Internal Audit planning which, as well as attracting criticism from External Audit is proving operationally demanding on the Head of Internal Audit to manage on an ongoing basis. Detailed Internal Audit planning, however, requires an investment of time at specific points of the year, there is no capacity in the current structure to support this.

## **Proposal**

22. The Head of Internal Audit seeks the support of the Audit and Risk Management Committee to request £165k of additional funding to:
  - i. Fund the creation of a new Deputy Head of Internal Audit position at grade G (£102k including on-costs) to support the effective management of the Internal Audit service.
  - ii. Provide for the buy-in of additional, temporary, Senior Auditor resource to supplement the delivery capability of the existing team (£63k).
23. It is expected that the demand for temporary resource will diminish as the professional development of the current Auditors in training progresses.
24. The source of funding will be determined following Audit and Risk Management Committee consideration of this proposal, although likely that additional funding for 2024/25 will be sought from a combination of Finance Committee Contingency and Chamberlain's Local Risk budget and for subsequent years via the budget setting process as a future budget pressure.

## **Key Data**

25. Various data is included in the business case at Appendix 3 in support of this request, the key metrics are summarised below:

	City of London Gross Expenditure £m		
	2019/2020	2023/2024	Change
<b>City Fund</b>	131	160	22%
<b>City Estate</b>	235	265	13%
<b>City Bridge Foundation</b>	63	137	117%
<b>Guildhall Administration</b>	74	79	7%
<b>Internal Audit</b>	0.819	0.626	-24%

26. The City of London Corporation had the second smallest Internal Audit Programme in 2023/24 from a survey of 22 London Authorities, 50% of the size of the largest respondent.

### **Lessons Learned in Relation to Resourcing Challenges**

27. Reflecting on the resourcing challenges over 2023/24, the main contributing factors were unanticipated absence (long-term sickness) and unsuccessful recruitment. The Internal Audit team lacked resilience at the start of the year, the risk presented by this was, perhaps, overlooked. The following specific points are noted:

- Introduction of 3 Auditor in training positions has been a stretch, in future we would look to take on only one trainee at a time.
- The current structure of the team was designed to fit the agreed financial budget rather than specifying the needs for the Internal Audit function.
- The absence of a more detailed Internal Audit plan has obscured visibility of the lack of capacity within the team, additional management resource will enable a more systematic approach to planning and setting out resource requirements in future years. The Internal Audit Dashboard will be amended to include an indicator to highlight early any resourcing shortfalls.

28. Had the team not experienced resource shortages in 2023/34, it is unlikely that this resource analysis would have been undertaken and the service would have found a way to maintain basic coverage and this may have been sustained for a number of years.

## **Corporate & Strategic Implications**

29. The Internal Audit Plan is designed to provide assurance as to the adequacy of the City of London Corporation's systems of internal control and governance. This programme of activity is aligned with the Corporate Plan, Corporate Risk Register and Departmental Top Risks and managed in accordance with the resources available to Internal Audit.
30. Should additional resource not be available to Internal Audit in 2024/25 and beyond, it may not be possible for the Head of Internal Audit to be able to provide an opinion on the adequacy and effectiveness of the internal control environment and governance and risk management arrangements.

## **Conclusion**

31. While Internal Audit work continues to identify improvement areas for management, the overall opinion provided on the City's internal control environment is that it remains adequate and effective. There are a number of recommendations open, past their due dates, some of which may have been implemented but not yet followed up on by Internal Audit, owing to insufficient capacity to review any action taken by management.

## **Appendices**

- **Appendix 1** - Internal Audit Dashboard
- **Appendix 2** - Public Sector Internal Audit Standards – Definitions of Conformance Assessment
- **Appendix 3** - Internal Audit Resource Analysis and Benchmarking
- **Appendix 4** – Internal Audit Staffing Structure

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