

Committee:	Date:
Audit and Risk Management Committee	9 th September 2014
Subject: Internal Audit Update Report	Public
Report of: Head of Internal Audit	For Information
Summary	
<p>This report provides an update on internal audit activity since the Committee met on 13th May 2014. It sets out the independent opinion of the Head of Internal Audit in relation to the adequacy and effectiveness of the control environment for those areas of internal audit work concluded since the last update report to Committee.</p> <p>The outcomes from the seventeen main audit reviews finalised since the last update are reported and significant risk issues highlighted. Three audit reviews resulted in Amber assurance ratings, which indicate there are significant audit findings which require mitigation and focused action by management.</p> <ul style="list-style-type: none"> • Open Spaces – Cemeteries and Crematorium – ICT Review: • Community and Children Services – Public Health Contracts: • Mansion House – Income Review: <p>Completion of the 2014/15 internal audit plan is at 16% which is marginally above the expected 15% rate of completion for this time period. The two interim senior auditors are being retained until October 2014 to maintain the resources of the internal audit section at a full level.</p> <p>A good level of performance is being maintained by the internal audit function, although the timely issuing of draft reports following completion of audit fieldwork requires improvement.</p> <p>Recommendation</p> <p>Members are asked to note the update report.</p>	

Main Report

Current Position

1. Since the last full update report to the Audit & Risk Management Committee in May 2014, seventeen main audit reviews have been finalised. Three of these reviews resulted in Amber assurances for which the headline issues and consideration of impact is analysed in **Table 1**. Further details of these reports are provided in **Appendix 1**.

Table 1 – Key Audit Report Headlines (details of recommendations in brackets)

Open Spaces – Cemetery & Crematorium – ICT Review – Amber (4 Amber, 4 Green)

Assurance Level : Amber, Impact : Medium

Materiality: Epilog is the critical system at the Cemetery & Crematorium since it is used for the majority of the functions at C&C such as grave care, burials and cremations, financial information recording and reporting.

Key findings:

Poor data quality has resulted in increased workload for the staff and user dissatisfaction; however a data correction exercise has commenced and is to be fully completed by Spring 2015. Investigation of the poor performance of the system has resulted in improvements being made to the ICT infrastructure. The application supplier has been requested to investigate the poor performance of the system itself. Elements of the BCP have been tested but the document needs updating to reflect organisation and infrastructure changes and followed up with a BCP test in earnest.

Management Response: All recommendations were agreed to be fully implemented by April 2015.

Department of Community & Children's Services – Public Health Contracts - Amber (2 Amber, 3 - Green)

Assurance Level : AMBER Impact : High

Materiality: The City currently commission 42 public health services and the authority to commission and manage 37 out of the 42 public health contracts has been delegated to the London Borough of Hackney (LBH). Funding of the City's public health contracts portfolio is met by Department of Health (DoH)'s public health grant (£1,651,000 in 2013/14)

Key Findings:

One of the two City contracts had been developed but not signed for which an amber recommendation was agreed to address. Of the sample of 8 LBH-led public health services reviewed, a contract is not in place in respect of three where there is currently a dispute with the service provider because of a funding gap. The review noted some areas where contract monitoring procedures could be improved.

Management Response:

All recommendations were agreed to be implemented by November 2014.

Mansion House – Income - Amber Assurance (7 Amber, 5 Green recommendations)

Assurance Level : Amber, Impact : Medium

Materiality: Actual income from Event Hire and Mansion House Tours was £375k for 2013/14.

Key findings:

Recommendations relating to clarifying the income generation objectives, reviewing charging policy, undertaking a full costing review and benchmarking were agreed. Cash income from tours conducted by City Tour Guides was not banked intact where it was used to reimburse Tour Guide fees. There is scope to streamline the income collection process where two members of staff were duplicating income collection processes and improve the separation of duties and reconciliation of Lent Hire income.

Management Response: Eleven of the twelve recommendations made were agreed by Management with one recommendation rejected related to publishing Mansion House fees and charges in a brochure. All agreed recommendations are due to be implemented by December 2014.

Current Position

- In addition to highlighting these key issues arising from recent internal audit work, the fourteen internal audit reviews identified in **Table 2** have been finalised and reported over the last three months with a Green Assurance rating. Audit report summaries from these reviews are circulated separately to the Audit & Risk Management Committee and the Chairman and Deputy Chairman of the relevant Service Committee. The detailed full internal audit report can be provided to members of this Committee on request.

Table 2	Red	Amber	Green	Total
Green Assurance Audit Reviews	recs.	recs.	recs.	
Corporate Reviews:				
Data Quality		1	3	4
Built Environment:				
Variation Order and Change Control			2	2
Remembrancer's Department:				
Functions and Guildhall Lettings			6	6
Chamberlain's Department:				
Payroll			4	4
Comptroller and City Solicitors Department:				
Legal Consultation		1	5	6

Table 2	Red	Amber	Green	Total
Green Assurance Audit Reviews	recs.	recs.	recs.	
Department of Culture, Arts and Libraries: London Metropolitan Archives – Physical Assets and Collections		2	2	4
Markets and Consumer Protection Department: Market Leases Due Diligence		1	1	2
Town Clerk’s Department: Economic Development Office: Overseas Offices		2	4	6
Public Relations Office: Communication Strategy		1	3	4
City of London Police: Fees and Charges		1		1
Police Vehicle Fleet – VFM		1	1	2
Third Party Payments			4	4
Guildhall School of Music and Drama: Professors Contracts		1	1	1
City of London School for Girls: Teaching and Non-Teaching Staff Recruitment (incl. Temp Staff)			1	1

Audit Work Delivery

3. Completion of the 2014/15 audit plan was 16% at the end of July 2014 compared to an expected completion profile of 15% for this time of year, and 13% at the same time period in 2013.
4. There is one auditor vacancy, which is currently being recruited to. The two interim senior auditors are being retained into October 2014, to maintain internal audit resources following the major carry forward of internal audit work from 2013/14.
5. Details of main audit reviews planned for the next quarter (October 2014 to December 2014) can be provided to Members on request.

Internal Audit Section Performance

6. A review of the performance of the internal audit function is provided in **Appendix 2**. Analysis of audit days delivered for the 2014/15 planning period is provided in **Appendix 3**.

7. In summary, the good performance levels in implementing audit recommendations as assessed by formal follow-up reviews have been maintained. There has been improvement in the timely issue of final audit reports which was below target levels. Performance in the timely issue of draft reports following completion of audit fieldwork had dropped below the target level due to delays in Quality Assurance caused by the high volume of audit reviews being concluded over the last 3 months. All other performance levels are meeting or exceeding targets.

Development of the Internal Audit Section

8. The internal audit charter will be reviewed and updated prior to seeking approval at the November Committee meeting. A recruitment exercise to fill the auditor vacancy is underway. Further work to review the efficiency of the internal audit process will be commencing in September, including planning for an upgrade to the internal audit section MK audit automation software to the latest version and arranging an internal audit section training day in the Autumn.

Conclusion

9. Internal audit's opinion on the City's overall internal control environment is that it remains adequate and effective. Some areas of control do need focused improvement by management, particularly in the areas identified within the three amber assurance audit reports.
10. The internal audit section has one auditor vacancy; however there are two temporary senior auditors in place until October 2014 to ensure adequate internal audit coverage is maintained.

Appendices

- Appendix 1 – Audit Report Summaries
- Appendix 2 – Review of Internal Audit Performance
- Appendix 3 – Audit Resource Analysis

Background Papers:

2014/15 Internal Audit Plan

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