

<b>Committee:</b>	<b>Date:</b>
Audit and Risk Management Committee	8 <sup>th</sup> December 2014
<b>Subject:</b> Internal Audit Update Report	<b>Public</b>
<b>Report of:</b> Head of Internal Audit and Risk Management	<b>For Information</b>
<p style="text-align: center;"><b>Summary</b></p> <p>This report provides an update on internal audit activity since the Committee met on 9<sup>th</sup> September 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 14 audit reviews finalised since the last update are reported and significant risk issues highlighted. Two 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"> <li>• Corporate Wide - Payment Card Industry Data Security Standards (PCIDSS) Review</li> <li>• Chamberlains Department - City Procurement – Assisted Purchasing</li> </ul> <p>Completion of the 2014/15 internal audit plan is at 44% which is above the expected 40% rate of completion for this time period. One interim senior auditor is now being retained until April 2015 to maintain the resources of the internal audit section close to a full level.</p> <p>A good level of performance is being maintained by the internal audit function, although the timely finalisation of audit reports, following issue of draft reports requires constant monitoring and regular escalation.</p> <p><b>Recommendation</b></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 September 2014, 14 audit reviews have been finalised. Two 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**.

<b>Table 1 – Key Audit Report Headlines (details of recommendations in brackets)</b>
<p><b>Corporate Wide – Payment Card Industry Data Security Standards (PCIDSS) Review – Amber (3 Amber, 2 Green)</b></p> <p><b>Assurance Level : Amber, Impact : Medium</b></p> <p><b>Materiality:</b> City of London processes approximately 19,000 payment device transactions per annum to a value of approximately three million pounds. Failure to comply to PCIDSS can result in significant penalties of up to tens of thousand pounds, along with substantial reputational damage if personal financial information is not secure due to inadequate safeguards being in place.</p> <p><b>Key findings:</b> From a sample of five Departments sampled, a moderate level of compliance exists, however, some weaknesses are present and a full PCIDSS assessment exercise is recommended to expose and manage all vulnerabilities.</p> <p><b>Management Response:</b> Urgent action has been taken to address higher priority non-compliant areas, all recommendations from this review are agreed to be implemented by the end of April 2015.</p>
<p><b>Chamberlain’s Department – City Procurement – Assisted Purchasing - Amber Assurance (3 Amber, 5 Green recommendations)</b></p> <p><b>Assurance Level : Amber, Impact : Medium</b></p> <p><b>Materiality:</b> Where preferred suppliers are not used, this team’s role was to ensure that the City obtains value for money in obtaining and assessing competitive quotations subject to a de-minims limit of £2,000 and in line with the City’s procurement regulations.</p> <p><b>Key findings:</b> The audit was unable to provide assurance that all members of the Transactional Buying Team have the required skills, qualifications and experience to deliver an effective Assisted Purchasing service. It is anticipated that these issues should be resolved by the recent City Procurement restructure which looks to ensure that Transactional Buying staff have greater ‘category focus’. The audit also identified scope to improve the regular analysis of purchases dealt with by the service and improving the monitoring and escalation of non-compliance on the use of retrospective purchase orders.</p> <p><b>Management Response:</b> All recommendations were agreed by management and are due to be implemented by May 2015.</p>

## **Current Position**

2. In addition to highlighting these key issues arising from recent internal audit work, twelve 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.

<b>Table 2</b> <b>Green Assurance Audit Reviews</b>	<b>Red recs.</b>	<b>Amber recs.</b>	<b>Green recs.</b>	<b>Total</b>
<b>Barbican Centre:</b> Projects – Interim Valuations		2	2	4
Projects – Extension of Time		1	2	3
<b>Built Environment:</b> Planning Applications			2	2
<b>Department of Community and Children Services:</b> Asylum Seekers – Assessment, Monitoring and Payment			8	8
Projects – Interim valuations		1	2	3
<b>Chamberlain’s Department:</b> Banking – Corporate Responsibility			2	2
<b>City Surveyor’s Department:</b> Projects – Interim Valuations		2	1	3
<b>Markets and Consumer Protection Department:</b> Billingsgate Car Park		1	3	4
<b>Town Clerk’s Department:</b> Finance Committee Grants			3	3
Police and Resources Committee - Policy Initiatives Fund and Contingency Budge		2	2	4
Member Declaration of Interests and Related Party Transactions			2	2
<b>City of London Police:</b> Project Office			1	1
Compensation Costs			3	3
<b>Guildhall School of Music and Drama:</b>				

<b>Table 2</b>	<b>Red</b>	<b>Amber</b>	<b>Green</b>	<b>Total</b>
<b>Green Assurance Audit Reviews</b>	<b>recs.</b>	<b>recs.</b>	<b>recs.</b>	
Sundial Court – Expenditure and Income		1	2	3

### **Key Financial Systems Flowcharting – Process and Controls**

3. Internal Audit has now completed a major assurance project working jointly with the Chamberlain's Financial Service Division to flowchart all the main financial systems key process flows and controls, covering fifteen main systems. Once flowcharts were documented, challenge meetings chaired by the Financial Services Director were held with the Head of Audit, relevant Head of Service/Finance and key finance staff to review the documented systems. The aim of which was to gain assurance that appropriate key controls were present in the end to end process, identify potential inefficiencies or opportunities for more standardised working.
4. This high level assurance review confirmed that all expected key controls were in place. In one area, the testing of the actual application of internal controls was identified for further internal audit work and in other areas, control improvements that should result from the Oracle 12 upgrade were recognised. In addition, some areas where the adoption of a more standardised process across Departments were also identified. This flowcharting documentation is now being utilised in the development of a comprehensive Finance Manual for the Corporation.

### **Audit Work Delivery**

5. Completion of the 2014/15 audit plan was 44% at mid November 2014 compared to an expected completion profile of 40% for this time of year, and 36% at the same time period in 2013.
6. There is one auditor and one audit apprentice vacancy both of which are currently being recruited to. One interim senior auditor is now being retained until April 2015 to maintain the resources of the internal audit section at a full level. Support has been provided between August and November by two senior auditors to facilitate the maintenance of the Corporate Risk Register and maintain momentum on the implementation of the Covalent Risk Management Software whilst the Corporate Risk Advisor role was recruited to.
7. Details of main audit reviews planned for the next quarter (January 2014 to March 2014) can be provided to Members on request.
8. Details of changes to the 2014/15 internal audit plan are provided in **Appendix 2**. The plan has been kept under regular review during the year, with some additional higher priority work added and lower risk work deferred or cancelled where the originally planned internal audit work was no longer considered the best use of internal audit resource.

## **Internal Audit Section Performance**

9. A review of the performance of the internal audit function is provided in **Appendix 3**. Analysis of audit days delivered for the 2014/15 planning period is provided in **Appendix 4**.
10. In summary, the good performance levels in implementing audit recommendations as assessed by formal follow-up reviews have been maintained. There has been some reduction in the timely issue of final audit reports which is now below target at 70% (target 80%). Delayed responses have been escalated and responses received from Departments, although outside target timescales. The deadline given to Departments to provide responses to draft audit reports has reduced from 4 weeks to 3 weeks.
11. Performance in the timely issue of draft reports following completion of audit fieldwork has improved over the last 3 months, and is now just below target at 78% (target 80%). All other performance levels are meeting or exceeding targets.

## **Development of the Internal Audit Section**

12. Work reviewing the efficiency of the internal audit process has commenced and an internal audit section training day has been arranged for the 17<sup>th</sup> December. Implementation of an upgrade to the internal audit section MK audit automation software to the latest version is planned for the first part of 2015.

## **Conclusion**

13. 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 two amber assurance audit reports.
14. The internal audit section has one auditor and one audit apprentice vacancy. One temporary senior auditor has been extended until the end of April 2015 to assist with covering vacancies.

## **Appendices**

- Appendix 1 – Audit Report Summaries
- Appendix 2 – Changes to the 2014/15 Internal Audit Plan
- Appendix 3 – Review of Internal Audit Performance
- Appendix 4 – Audit Resource Analysis

## **Background Papers:**

2014/15 Internal Audit Plan

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