

<b>Committee(s)</b>	<b>Dated:</b>
Audit and Risk Management Committee	02/06/2015
<b>Subject:</b> Head of Internal Audit Opinion and Annual Report	<b>Public</b>
<b>Report of:</b> Head of Internal Audit and Risk Management	<b>For Information</b>

### Summary

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

Consistent with the interim opinion provided as part of the handover process by Paul Nagle, Head of Internal Audit and Risk Management covering the period 01 April 2014 to 31 December 2014, the following opinion is provided for the 12 months ended 31 March 2015:

*"I am satisfied that sufficient quantity and coverage of internal audit work and other independent assurance 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 these processes.*

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

Two areas of emphasis are highlighted in the internal audit opinion. The first relates to the resilience of the City of London Police ICT arrangements which, at the time of reporting, have insufficient controls to ensure the resilience of ICT operations. This issue had already been identified by management, and structural changes are being made to strengthen the resilience of ICT through the merging of the Corporate ICT and Police ICT functions and the transfer of infrastructure to the City's outsourced ICT provider, Agilisys. The second relates to the management and procurement of temporary staff via the managed staff provider.

In the Head of Internal Audit's previous annual opinion, one area of emphasis highlighted related to controls operating in relation to project management. Audit follow-up work in this area has confirmed the implementation of all recommendations.

The volume of audit work completed in 2014/15 and in previous years; the completion of the full follow-up programme on audit recommendations; and the relatively high level of internal audit resourcing enables the Head of Internal Audit to be satisfied that sufficient audit work has been undertaken to enable reasonable conclusions to be drawn as to the adequacy of the City's risk, governance and internal control arrangements.

The latest review of the performance of the internal audit function was provided to the committee on 28 April 2015. The internal audit function operates under the requirements of the Public Sector Internal Audit Standards (PSIAS). The City of London internal audit function was peer reviewed by the Head of Governance, from the London Borough of Croydon in February 2014 and assessed as generally conforming to the new standards. A number of minor observations were made, which have now been acted upon, including revision to the internal audit charter, which was agreed at the 4<sup>th</sup> November 2014 Audit & Risk Management Committee.

A review was undertaken on the internal audit function, as part of the Corporation's Service Based Review (SBR), in the summer of 2014 in order to assess efficiencies and cost savings that could be achieved. Proposals were agreed to reduce the cost of the internal audit function by £220k.

The Head of Internal Audit's view is that, after considering the resource reductions and the scope for efficiencies in the internal audit process, it will still be possible to provide a reasonable assurance over the Governance, Risk Management and Control Environment of the City of London Corporation going forward.

### **Recommendation**

Members are asked to:

- Note the Head of Internal Audit Opinion

### **Main Report**

#### **Background**

1. 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 work undertaken by the internal audit function throughout the entire year;
  - b. Key issues arising from this work; and,
  - c. The performance of the internal audit function during 2014/15.
2. This report is supported, at **Appendix 1**, by a summary of all audit work completed during the year. This work has been reported to the Audit and Risk Management Committee throughout the year. This Appendix includes details of finalised and draft reports.

3. This report has been produced to satisfy the requirement of the Public Sector Internal Audit Standards to provide an annual opinion.

### Current Position

4. The opinion provided is that ***“the City has adequate and effective systems of internal control in place to manage the achievement of its objectives”***. However, in the summary of this report Member’s attention was drawn to two areas of emphasis: ICT arrangements at the City of London Police and the controls over procurement of temporary staff.
5. In response to the recommendations raised, the City of London Police management are implementing an action plan, which includes working with the City of London Corporation’s managed service provider of IT. The action plan is due for completion at the end of December 2015. As such they have requested that an interim follow up is performed in July 2015 to report against the progress made.
6. In respect of the recommendations raised in relation to controls operating over the procurement of temporary staff, the Town Clerk’s HR team and Chamberlain’s Head of Procurement are working together to address the issues. Of particular significance is that a key function in the system used to approve payment of temporary staff is due to be activated in June 2015. As at the time of our review the ‘auto approval’ function was being used. This allowed timesheets and corresponding invoices to be processed without being checked and approved after a period of time had lapsed.
7. In our report to the committee on 28 April 2015 there were no outstanding red priority recommendations. It was also reported that the cumulative performance in the implementation of audit recommendations, when formal audit follow up reviews were undertaken over the last 24 months, was as follows:

<b>Implementation at time of audit follow up (last two years)</b>	<b>Red</b>	<b>Amber</b>	<b>Green</b>	<b>Total</b>
Recommendations Agreed	11	83	200	294
Recommendations Implemented	11	73	168	252
% Implemented	100%	88%	84%	86%

The above means that 42 recommendations remained as *“not implemented”* at the time of our follow-up work.

8. The Internal Audit function generally complies with the Public Sector Internal Audit standards, with only a small number of minor issues currently being addressed to achieve full compliance.

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

9. As Head of Internal Audit, I am required to provide an opinion on the overall adequacy and effectiveness of the City's control environment. I have undertaken the following in order to form a basis for providing my assurance:
- Assessed the quantity and coverage of internal audit work against the 2014/15 internal audit plan to allow a reasonable conclusion as to the adequacy and effectiveness of the City's risk management, control and governance processes;
  - Reviewed the reports from the reviews undertaken during the year by internal audit and other assurance providers;
  - Considered, any significant recommendations not accepted by management and the consequent risks, of which there were none;
  - Assessed the status of recommendations identified as not implemented, as part of internal audit follow-up reviews and subsequent progress tracking;
  - Considered the effects of any significant changes in the City's objectives or systems;
  - Reviewed and considered matters arising from reports to the Audit and Risk Management Committee;
  - Considered whether there were any limitations which may have been placed on the scope of internal audit.
10. Following consideration of the above I am able to provide the following Head of Internal Audit Opinion for 2014/15.

### **Audit Opinion**

11. I am satisfied that sufficient quantity and coverage of internal audit work and other independent assurance 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.
12. 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 these processes.
13. Notwithstanding my 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.

## **Review of Performance**

14. An annual performance and effectiveness review of the internal audit function is required by the Public Sector Internal Audit Standards.
15. The City of London, internal audit function was peer reviewed by the Head of Governance, from the London Borough of Croydon in February 2014 and assessed as generally conforming to the new standards. A number of minor observations were made, which have now been acted upon, including revision to the internal audit charter, which was agreed at the 4th November 2014 Audit & Risk Management Committee.
16. In respect of key performance indicators these are as follows and as reported at the 28 April 2015;
  - a. The internal audit function achieved the target to deliver 90% of the plan by 31<sup>st</sup> March 2015;
  - b. Performance levels of implementing recommendations have been maintained;
  - c. The target of members of the team holding a relevant qualification continues to be met; and
  - d. Satisfaction survey results remain positive.

Performance of delivery draft and final reports did not meet the target. This is being addressed by centralising monitoring records, which will provide a more robust tracking and reporting finalisation process. Furthermore, the performance indicators have been reviewed and changed to enable tracking of where responsibility lies for the delays.

17. As part of the Chamberlain's Department Customer Service survey, some specific internal audit feedback was provided. The survey indicated a good level of performance for the section, although some areas of improvement for consideration were identified which are currently being considered.

## **Service Based Review**

18. A review was undertaken on the internal audit function in the summer of 2014, as part of the Corporation's SBR, with a primary focus of assessing efficiencies and cost savings that could be achieved. Further analytical work was undertaken in the autumn, with proposals to reduce the cost of the internal audit function by £220k over 2 years agreed.
19. Whilst these savings proposals will result in a material reduction in internal audit resources, efficiencies can be made in the internal audit process, and the level of assurance over the most significant risks and activities of the City maintained.
20. These changes will also be consistent with the City wide drive to increase accountability and trust, and for line management to take a greater responsibility for compliance and the effective management of risk.

21. The Head of Internal Audit considers that the proposed resource reductions, and the scope for efficiencies in the internal audit process, will still enable reasonable assurance to be provided over the Governance, Risk Management and Control Environment of the City of London Corporation.

## **Conclusion**

22. 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, and all high priority recommendations have been implemented within agreed timescales.

## **Appendices**

- Appendix 1 – List of completed internal audit reviews in 2014/15

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