

Committee(s)	Dated:
Audit and Risk Management Committee	28 November 2017
Subject: External Quality Assessment – Action Plan update	Public
Report of: Head of Audit and Risk Management	For Information
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Summary

The purpose of this report is to outline the progress against the identified actions following the findings of the external and independent review of the City Corporation's Internal Audit, Risk Management and Anti-Fraud function undertaken by Mazars LLP.

In 2016, the Chamberlain commissioned a review of the effectiveness of the Internal Audit function to assess the strengths and weaknesses of the current arrangements for audit within the City Corporation as well as identifying opportunities for improvement.

The report identified that there were ten areas for development (three high, five medium and two low priority recommendations). To date, four actions have been fully completed, three are partially completed, two are not yet complete and one is not yet due. Several of the actions have been impacted by the decision to tie the implementation of the latest audit software upgrade into the Corporation's Transformation Programme, which has now been completed.

The current status against each of the actions is detailed in Appendix 1.

Recommendations

- a) The Committee are requested to note the status of the implementation of recommendations.

Background

1. A professional, independent and objective internal audit service is one of the key elements of good governance in local government. Under the Public Sector Internal Audit Standards introduced from 1 April 2013 and updated in 2016, local government internal audit functions have been required to comply with these Standards and should be subject to periodic assessment.
2. In 2016, as part of the contract with Mazars LLP to deliver the Head of Audit & Risk Management role, the Chamberlain commissioned a review of the effectiveness of the Internal Audit function to assess the strengths and weaknesses of the current arrangements for audit within the City Corporation as well as identifying opportunities for improvement. An External Quality

Assessment (EQA) of Internal Audit was undertaken by Mazars, together with the Head of Audit and Risk Management, based upon the best practice advice and guidelines from Mazars' involvement with local government internal audit functions as a leading provider of these services, and with regard to the Public Sector Internal Audit Standards (PSIAS).

3. The EQA identified ten areas for development (three high, five medium and two low priority recommendations).

Opportunities for development

4. Mazars identified a number of key areas of focus for developing the current Internal Audit function based on the expectations of key stakeholders and their assessment of the City Corporation's Internal Audit function against their evaluation framework:
 - Purpose & Remit / Position & Organisation - *There is a need for the Internal Audit function to undertake a detailed identification of current processes within the City Corporation, key outcomes, corporate and operational risks and map this to the assurance requirements of the organisation. There is also a need to ensure that the risks identified during the planning process are followed through when formulating and agreeing the audit brief and delivering the audit work.*
 - Process & Technology - *An audit manual needs to be developed to clearly define the requirements of a focused top-down risk-based internal audit approach to be consistently applied across the Internal Audit function.*
 - Consideration should be given to utilising the latest functionality of the MKInsight system to automate the follow up monitoring process and ensure management accountability for implementation of Internal Audit recommendations.
 - Consideration should be given to utilising the latest functionality of the MKInsight system for time recording, budget monitoring and the provision of management information.
 - People & Knowledge - *A skills gap analysis should be undertaken and a formal training and development programme put in place.*

Progress on Implementation of Recommendations

5. To date, four of the actions identified have been completed: these relate to:
 - EQA 02 – Audit Charter Update
 - EQA 06 – Skills Gap Analysis
 - EQA 07 – Performance Management
 - EQA 09 – Knowledge Management
6. Through the staff appraisal process, the key issues of skills, development and performance management have been addressed, identifying both team and individual strengths and weaknesses and setting targeted objectives for improvements where required. As a result, there have been improvements in

the quality of deliverables and in the performance of the team in delivering to budget, although there are still improvements to be made.

7. Actions in relation to three of the recommendations have been partially implemented:
 - EQA 03 – Business Relationship Management
 - EQA 05 – MKInsight Upgrade and Development
 - EQA 08 – Risk Management and Anti-Fraud Resilience
8. Progress has been made in each of these areas; however, there is still an opportunity to improve Internal Audit's development of these areas, particularly in relation to the improvement of resilience which has been impacted in part by changes in Anti-Fraud service delivery. The key objective of upgrading and developing the audit software package, MKInsight, was temporarily postponed in order to tie in with the Corporation's IT Transformation Programme delivery; however, the software has now been upgraded and the process of setting up a trial of the automated follow up of recommendations process has begun.
9. Actions in relation to two of the recommendations are not yet complete:
 - EQA 04 – Audit Manual Development
 - EQA 10 – Committee Updates
10. The creation of an Audit Manual has been delayed due to the implementation of the upgraded Audit Software, which will require some changes in audit practice. Now that the software has been implemented, the Manual is now being drawn up to include revised audit processes and the changes to the recommendation follow-up process. The review of updates provided to the Audit and Risk Management Committee has started, starting with a review of information provided by other Heads of Internal Audit and discussions with Town Clerks in relation to Governance updates.
11. Revised target dates have been provided for the completion of the outstanding actions.

Conclusion

12. Progress on implementation of recommendations arising from the External Quality Assessment report is progressing well, with the remaining actions being progressed. The implemented actions and those in progress have had a very positive impact on the quality and delivery of the service, and on the effectiveness of the Audit team.

Appendices:

APPENDIX 1 – External Quality Assessment – Status of Recommendation Implementation November 2017

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