

Committee:	Date:
Audit and Risk Management Committee	16 July 2019
Subject: Internal Audit Update Report	Public
Report of: Head of Audit and Risk Management	For Information

Summary

This report provides an update on internal audit activity since the last Internal Audit Update Report presented to the March 2019 Committee meeting.

Work on the 2018-19 internal plan is nearing completion, with 60 reports in the Plan; to 17th June 2019, 89% of the plan has been completed to a minimum of draft report stage, with a further 3% of audit reports under review. Fieldwork is on-going in respect of the final 8% of the annual plan, including many audits which are nearing completion.

For those audits at fieldwork stage, there have been delays in delivery of the Plan due to a number of postponements of audit assignments until Q1, difficulties obtaining required information for audit fieldwork and availability management resources, as well as staff absence within the Internal Audit Team.

Audit work has commenced for 2019/20, with one report issued in draft and one draft report under review. Fieldwork and planning of audits is underway for 22% of the Audit Plan.

The Corporate Follow-Up forward plan has been defined and is set out below. The proposed frequency of follow-ups has been increased to promote regular review of recommendations implementation by departmental management and to encourage the treatment of recommendation tracking as a 'business as usual' activity.

Recommendation

- That this report is noted.

Main Report

Background

1. This report sets out internal audit activity since the March 2019 Internal Audit Update Report and the opinion of the Head of Audit and Risk Management in relation to the adequacy and effectiveness of the control environment.

Internal Audit Delivery

2. Work on the 2018-19 internal plan is progressing, with 60 reports in the Plan; to 17th June 2019, 89% of the plan has been completed to a minimum of draft

report stage, with a further 3% of audit reports under review. Fieldwork is on-going in respect of 8% of the annual plan, including many audits which are nearing completion. Full details of plan progress for 2018-19 are included within **Appendix 1**.

3. Of the five audits (8%) at fieldwork stage, there have been delays in delivery of the audits due to the following:
 - Postponement of the CoLP Plan until completion of the Key Financial Controls audit;
 - Postponement of audit assignments until Q1, at the request of the client departments;
 - Delays in receipt of information at audit fieldwork stage;
 - Issues with availability of management resources to progress audits, and
 - Internal Audit staff absence.
4. Twenty-one audits have progressed to Final Report stage since the March 2019 meeting, comprising four Red assurance reviews and 14 Amber assurance reviews.
5. Member Briefings have been circulated in respect of finalised audits and contain assurance rating information, details of the key conclusions and high priority recommendations arising from the audit, as well as the accompanying management responses. Additionally, summary outcomes are shown below for the red recommendations for the four Red audits finalised since the March 2019 meeting of this Committee. The following table sets out the assurance rating and a breakdown of the number of recommendations made by priority for these audits.

Audit	Assurance	Red	Amber	Green	Total
BARBICAN - STRATEGIC PLANNING	AMBER	0	2	0	2
CHB - PAYROLL	AMBER	0	1	3	4
CLS – CYBER SECURITY	RED	2	11	0	13
CORP – SAFEGUARDING GOVERNANCE	N/A	N/A	N/A	N/A	N/A
DCCS – ADULT SKILLS & EDUCATION	RED	4	5	4	13
DCCS – MENTAL HEALTH PROVISION	AMBER	0	3	0	3
GSMD – STRATEGIC PLANNING	AMBER	0	2	2	4
M&S – LICENSING DATABASE	AMBER	0	2	2	4
CORP – SUPPLIERS FINANCIAL HEALTH & RESILIENCE	AMBER	0	4	2	6
CORP – COMMERCIAL MANAGER SCORECARD PROCEDURES	AMBER	0	6	4	10
TC – LMA – COLLECTION MANAGEMENT	AMBER	0	4	1	5
TC – EDO PROGRAMMES AND PROJECTS	AMBER	0	4	1	5
CHB – IT CHANGE MANAGEMENT	AMBER	0	1	1	2
CHB – PENSIONS (CITY)	GREEN	0	1	0	1
CHB – PENSIONS (CoLP)	GREEN	0	1	0	1
DCCS – MENTAL HEALTH PROVISION	AMBER	0	3	0	3
OS – PERFORMANCE MEASURES	AMBER	0	2	2	4
MH – CATERING & HOSPITALITY CONTRACT	AMBER	0	5	0	5
MH – INCOME & EXPENDITURE	RED	3	8	2	13

DBE – CIL & S106	RED	1	7	5	13
CoLP – KEY FINANCIAL CONTROLS ADDITIONAL TESTING	AMBER	0	5	0	5
	TOTAL	10	77	29	116

6. The ten red priority recommendations, all of which were agreed by management, relate to the following areas:

CLS Cyber Security

- The School should develop a plan for addressing the recommendations of the recent penetration test at the earliest opportunity, prioritising any corrective action according to the risk presented.
- The School should either lock down USB drives so they cannot be used or, if their use is essential for business purposes, enforce USB encryption prior to data transfer.

DCCS Adult Skills & Education

- The Head of Adult Skills, Education and Apprenticeships should put arrangements in place to demonstrate the accuracy and completeness of Erasmus funding return submissions. For each funding return submitted the Head of Adult Skills, Education and Apprenticeship should ensure that the returns are supported by detailed calculations and supporting evidence e.g. timesheets, and receipts.
- The Director of Community and Children's Services should ensure that appropriate measures are introduced to ensure that funding agreements are only signed by those members of staff with appropriate authority to do so.
- The Director of Community and Children's Services should:
 - (i) Ensure that Adult Education Service and Apprenticeship staff receive appropriate training on the requirements of the City's Central Procurement processes.
 - (ii) Instigate monitoring arrangements to ensure that the future procurement activity is undertaken in accordance with the Procurement Code 2015.
- The Director of Community and Children's Services should ensure that appropriate arrangements are in place for identifying the need for and approving formal variations across the department's contracts.

Mansion House – Income & Expenditure

- A procedure note should be drawn up which clearly defined roles and responsibilities and the processes that should be followed by the Events and Finance and Administration officers in respect of:

- Capturing details of bookings, including pricing agreements and provision of this information to the Finance and Administration Team;
- Raising of invoices;
- Reconciliation between room hire's bookings and income invoiced and collected; and
- Chasing of overdue income.

This procedure should help ensure appropriate separation of duties and should be made available to relevant staff in both the Finance and Administration and the Events offices.

- Management should ensure that:
 - Separation of duties is established between the organising of MH Group Tours and the collection of income made as a result.
 - Alternative options for income collection are explored and cash payments avoided, thereby helping to ensure safer and cost-effective mechanisms for group income collection.
 - Advance payments are required at tour booking stage.
- Management should ensure that appropriate processes are put in place for the setting up of charges, recording, collection, banking and reconciliation of CCC tours income. These should be approved at the appropriate level and circulated to relevant staff as a matter of priority.

DBE – CIL and S106

- Budget monitoring reports should be produced on a regular basis on all S106 agreements. For each agreement, the budget monitoring report should highlight the income collected for each type of fund. Furthermore, the reports should also outline which projects each fund has been allocated to and how much is yet to be allocated. The report should also highlight which funds have been actually spent compared to the allocated sum.
7. Audit work has commenced for 2019/20, with one report issued in draft and one draft report under review. Fieldwork and planning of audits is underway for 22% of the Audit Plan. Full details of plan progress for 2019-20 are included within **Appendix 2**.

Recommendations Implementation

8. Internal Audit has been actively looking at ways to streamline the follow-up approach and reduce the impact upon available resource for Audit Plan delivery. As previously proposed, Internal Audit will be undertaking more regular follow-up of high priority recommendations to promote regular monitoring of implementation by departmental Senior Management and reduce the perception that this activity as a 'bolt on'; recommendation tracking should be part of business as usual arrangements.

9. The majority of client departments have nominated Business Users who have been trained to access the Recommendation Tracking module within the software used by Internal Audit and can directly input implementation progress updates and attach associated evidence. It is anticipated that direct use of the module by departments will provide useful management information, facilitate the regular review of recommendation statuses and enable prompt responses to be provided to Internal Audit for Corporate Follow-Up purposes.
10. The timing of Corporate Follow-Up exercises has been defined, communicated to all departments, and the outcomes will be reported to this Committee, as set out below.

Internal Audit Follow-Up Activity	Recommendations within Scope*	A&RMC Meeting
August 2019	31/07/2019	September 2019
October 2019	30/09/2019	November 2019
December 2019	30/11/2019	January 2020
February 2020	31/01/2020	March 2020
May 2020	30/04/2020	June 2020

‘*’ Target implementation dates up to and including the dates set out.

Conclusion

11. Internal Audit’s opinion of the City’s overall internal control environment is that it remains adequate and effective although some areas of the financial, operational and IT frameworks, particular in relation to the Red reports noted above, do require strengthening by management as identified in the Member Briefings circulated to members of this Committee.

Appendices

Appendix 1 Internal Audit Delivery 2018-19

Appendix 2 Internal Audit Delivery 2019-20

Contact Officer:

Matt Lock, Head of Audit and Risk Management

T: 020 7332 1276

E: matt.lock@cityoflondon.gov.uk