

Committee:	Date:
Audit and Risk Management Committee of the Guildhall School of Music and Drama	14 November 2019
Board of Governors of the Guildhall School of Music and Drama	19 November 2018
Subject:	Public
Internal Audit Annual Report and Opinion	
Report of:	For Information
Head of Audit and Risk Management	
Report Author:	
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Summary

This report has been prepared in accordance with the Audit Code of Practice, part of the Office for Students terms and conditions of funding higher education institutions. It provides your Committee with details of the Internal Audit work undertaken at the Guildhall School of Music and Drama ('the School') in respect of the academic year ended 31st July 2019 with the intention of providing you with an annual audit opinion. Appendix 1 provides a summary of audit outcomes which have informed this report. Appendix 2 provides the detail of School audits finalised since the September 2019 meeting of this Committee.

The Head of Audit and Risk Management opinion for 2018-19 is that the School's systems of risk management, control and governance, economy, effectiveness and efficiency are generally robust and can be reasonably relied upon to ensure that School's objectives are achieved.

Delivery of the 2019-20 audit plan is now underway and there is a strong focus on completion by 31st July 2020. At the time of preparing this report no significant issues have been identified in respect of 2019-20 audits which adversely affect the Head of Audit and Risk Management's opinion.

Internal Audit follow-up work in respect of high priority recommendations during 2018-19 and 2019-20 to date has confirmed implementation of high priority recommendations, as well as identifying slippage in implementation resulting in revised target deadlines being set. Internal Audit recognises that the live recommendations position will fluctuate during the year due to finalised audits resulting in new recommendations and closure of recommendations once implementation has been demonstrated. Appendix 3 provides a breakdown in respect of the current position, as at. 31/10/2019.

Recommendation

Members are asked to note the Head of Audit Opinion in respect of 2018-19, the work that Internal Audit have undertaken, the live high priority recommendations position, and to offer any observations.

Main Report

Background

1. Internal Audit plays a role in providing the required assurance on internal controls through delivery of its risk-focused audit plan which forms part of a three-year strategy. This is reinforced by consultation with the School's Audit and Risk Management Committee, the Principal and members of the School's management team on perceived risk, any areas of concern and a follow-up audit regime which focuses on any high priority (red and amber) recommendations.
2. The Internal Audit Section operates in accordance with the Public Sector Internal Audit Standards. The Internal Audit Charter reflects that the work of Internal Audit covers the entire control environment of the City of London Corporation, of which the Guildhall School of Music and Drama is an institutional department. The scope of work encompasses risk management, control and governance with due regard for aspects of Value for Money i.e. economy, efficiency and effectiveness.
3. The Committee receives a report on an annual basis from the Head of Audit and Risk Management on the extent that the School can rely on its systems of internal control and to provide reasonable assurance that the School's objectives will be achieved efficiently. Annually the Committee considers the audit plan for the following year and the three-year audit strategy, focusing on coverage of the School's key operations. Additionally, regular Internal Audit Update Reports are received by this Committee containing the detail of the agreed scope for individual assignments (as per the finalised terms of reference), a summary of outcomes for finalised audits, and high priority recommendation status updates.
4. The School's main accounting and payroll systems are provided by the City of London Corporation. These systems are subject to periodic review by the Internal Audit Section and at the time of audit were considered by both Internal Audit and the City's external auditors to provide a high level of internal control.
5. This report includes a summary of audit findings for reviews undertaken during the financial year to 31st July 2019, including 'corporate' (City of London Corporation) audits which provide assurance over central systems / processes which are relevant to the School. No issues have arisen specifically in respect of the School from corporate audits.

Current Position

Internal Audit Plan and Annual Opinion 2018-19

6. A schedule of Internal Audit work informing the Head of Internal Audit and Risk Management's opinion can be found in Appendix 1. Outcomes have previously been reported to this Committee in respect of the School's audits with the exception of Academic Programme Development and Production Arts Students' Cash Floats. Summary audit outcome information in respect of both of these audits is contained in Appendix 2.

Risk Management Activities

7. The corporate Risk Management Strategy aligns with the key principles of ISO 31000: Risk Management Standard and the UK Government's Management of Risk Guide. The Strategy emphasises risk management as a key element within the City Corporation's systems of corporate governance and establishes a clear system for the evaluation of risk and escalation of emerging issues to the appropriate scrutiny level. It also defines the roles and responsibilities of officers, senior management and Members.
8. The Risk Management Group, consisting of senior managers representing all departments, includes the Guildhall School of Music and Drama.
9. Strategic decisions on risk management are made by the Summit Group. They receive a quarterly update on both corporate and top red departmental level risks.
10. The Chief Officer Risk Management Group, working on behalf of the Summit Group, meets quarterly to review, in depth, the corporate risk register and report their findings to the Summit Group when they consider the quarterly risk update report.
11. In addition to receiving quarterly risk update reports, the Audit and Risk Management Committee has adopted a cycle of regular departmental risk challenge sessions, with Chief Officers and their respective Committee Chairmen. These are one-hour long sessions where the Chief Officer discusses with the Committee the department's arrangements for managing risk as well as the key risks it faces. In July 2019 the School's Principal attended the Committee's informal risk challenge session.
12. The Committee also undertakes deep dives of corporate risks. In 2018/9, there were 10 corporate risk deep dive reports.

Head of Audit Opinion

13. The Head of Audit and Risk Management provides the following audit opinion, based on Internal Audit work undertaken in 2018-19, whereby ***the Guildhall School's systems of risk management, control and governance, and economy, effectiveness and efficiency are generally robust and can be reasonably relied upon to ensure that objectives are achieved.*** It is further noted that a number of the recommendations arising from our work have not yet been implemented.

Internal Audit Plan 2019-20

14. Delivery of the 2019-20 audit plan is underway and there is a strong focus on completion by 31st July 2019. The audits in respect of Academic Programme Development and Production Arts Students' Cash Floats were undertaken early enough in the 2019-20 Audit Plan year (i.e. April to March) to help inform the School's Audit Opinion for the 2018-19 academic year.

15. The audits of Facilities Management and Maintenance (Barbican and Guildhall School) and Internationalisation have not been initiated. Internal Audit will initiate planning for both of these assignments in November 2019.

Fraud Risk Management

16. The draft report has been circulated in respect of this audit which examined mechanisms are in operation for fraud risk management across the Guildhall School. In particular, the audit sought assurance that:

- A clear framework is in operation for identifying, assessing, mitigating and monitoring fraud risks;
- Arrangements are in operation for reporting to Governors and Senior Management on the effectiveness of fraud risk management;
- A fraud aware culture is promoted through:
 - determining and communicating appropriate routes through which suspected or actual fraud can be reported and;
 - taking appropriate actions to implement lessons learned from known fraud cases.
- Procedures have been developed and communicated to all key staff, clearly depicting what is expected in areas of the business activity with a high fraud risk, for example procurement, cash income collection, equipment management, and declarations of interest / gifts and hospitality. The audit also sought assurance that appropriate training has been delivered to staff in these high fraud risk areas.

17. Finalisation of this audit is anticipated by the end of November 2019.

Budget-Setting

18. The draft report has been circulated in respect of this audit which sought to verify that robust budget-setting arrangements are in place as follows:

- There is a budget setting guidance in place.
- There is a timetable in place and this is communicated to the staff involved in the budget setting process.
- The budget is based on accurate historic financial data, robust assumptions and takes account of the best estimate of the School's financial requirement and income.
- Any efficiency savings factored into the budget are supported with a plan on how that will be achieved.
- Adequate consideration is given to how the budget will support the School's medium-term strategic plan.
- Budget consultation takes place to ensure that the budget is realistic from an operational perspective and proposed budget is challenged to ensure that the financial resources are allocated and used in a most efficient manner.
- The budget is formally approved.

19. Finalisation of this audit is anticipated by the end November 2019.

Estates Strategy

20. Internal Audit follow-up work in 2018-19 confirmed implementation of a key recommendation from the Sundial Court Lease Renewal Project Governance audit - finalised in 2017-18 – and related to development of an Accommodation Strategy. Follow-up testing confirmed that the School's wider Estates Strategy was signed off by the School's Management Team and subsequently presented to the Board in February 2019. The Strategy document:

- Reflects its link with the School's Strategic Aims;
- Details the principles defining the School's approach to 'Estates';
- Categorises accommodation need and provides priorities for space use;
- Provides an overview of the short, medium and long-term approaches to delivery of the Strategy;
- Sets out the process for determining future need, for example as a result of new courses or activities.
- Confirms the governance and reporting arrangements.

21. The Strategy document also highlights that the School should be alert to particular opportunities as and when they arise; one such development represented an opportunity for Internal Audit to test application of the Strategy in practice and this – development of the associated business case - was incorporated within the scope of audit for 2019-20. Audit testing was focused on examination of the documentation supporting statements within the high-level Strategy document and how the principles of the Strategy had been applied in relation to the recent business case. Audit fieldwork has been completed and exit discussions held; the draft report will be circulated in November 2019.

Recommendations Implementation

22. Regular Internal Audit follow-up activity within 2018-19 has confirmed implementation of seventeen high priority recommendations related to the School. Revised target timescales had been supplied in respect of twelve of these recommendations as a result of implementation slippage, four of which were outside the control of the School as they related to finalisation of a corporate contract.

23. In terms of the current position, there has been an increase in agreed live high priority recommendations from ten amber reported to the September 2019 meeting of this Committee, to thirteen amber as at the end of October 2019; the three additional recommendations arose from a recently finalised report. Detailed recommendation statuses are shown at Appendix 3 and reflect that of these thirteen:

- The three additional recommendations arose from the audit of Production Arts Students' Cash Floats.
- Revised target timescales have been supplied in respect of three recommendations since the September 2019 meeting of this Committee as a result of implementation slippage.

- Revised target timescales are required for demonstrating full implementation in respect of two recommendations which had target dates of September 2019.
- Details of implementation progress are awaited in respect of six recommendations due for implementation by the end of October 2019.
- Two recommendations are not yet due for implementation, falling due in November and December 2019 respectively.

24. Internal Audit has reiterated the importance of setting realistic timescales for demonstrating recommendations implementation and work is ongoing to obtain status updates and confirm revised implementation dates for those outstanding recommendations where no information was provided.

Conclusion

25. A positive Head of Audit and Risk Management annual opinion has been provided, based on Internal Audit work carried out during the academic year ended 31st July 2019.

26. Delivery of the 2019-20 Internal Audit Plan is in progress and due for completion by 31st July 2020.

27. High priority recommendations are subject to regular review and follow-up by Internal Audit and this has identified some slippage in implementation timescales. Revised target dates have been supplied in respect of several high priority recommendations and Internal Audit formal follow-up work will continue at regular intervals to confirm the implementation status.

Appendices

- Appendix 1 - Schedule of Relevant Internal Audit Work 2018-19
- Appendix 2 – Summary Outcomes of the School’s Finalised Audits
- Appendix 3 – Live High Priority Recommendations as at 31/10/19

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