

Committee(s)	Dated:
Audit and Risk Management Committee	25/05/2021
Subject: Head of Audit and Risk Management Annual Opinion	Public
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	N/A
Does this proposal require extra revenue and/or capital spending?	N
If so, how much?	N/A
What is the source of Funding?	N/A
Has this Funding Source been agreed with the Chamberlain's Department?	N/A
Report of: Head of Audit and Risk Management	For Information
Report author: Matt Lock	

Summary

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

The following opinion is provided for the 12 months ended 31 March 2021:

*"I am satisfied that sufficient quantity and coverage of Internal Audit 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 risk management, governance and control processes. The matters raised by Internal Audit are only those which came to my attention during the course of our Internal Audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.*

Notwithstanding the overall opinion, Internal Audit's work identified a number of opportunities for improving controls and procedures which are documented in each individual audit report to management."

Recommendation(s)

Members are asked to:

- Note the report.

Main Report

Background

1. The Accounts and Audit Regulations 2015 came into effect on 1 April 2015 and require the City to undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards and associated guidance.
2. The professional responsibilities of Internal Auditors are set out within the Public Sector Internal Audit Standards (PSIAS) produced by the Internal Audit Standards Advisory Board. Supplementary guidance is also provided by CIPFA in their “Local Government Application Note”.
3. The work of Internal Audit forms the basis of an Annual Head of Internal Audit Opinion which is part of the framework of assurances that is received by the City of London Corporation and helps to inform the Annual Governance Statement. Internal Audit also has an independent and objective role to support management in improving governance, control and risk management through the provision of advice and guidance.
4. This report summarises the overall outcomes from Internal Audit work during 2020/21. The report does not include detail in relation to the findings of individual audit reviews, as previously reported to the Audit and Risk Management Committee during the year as part of the routine Internal Audit Update reports.

Basis of Annual Opinion

5. In forming an annual opinion, the Head of Internal Audit and Risk Management has considered:
 - Work completed by the Internal Audit team throughout the year, key issues arising from this and assurance opinions provided
 - Management responses to Internal Audit work, with particular attention to the acceptance of recommendations made to address significant issues (no exceptions reported)
 - Progress made by management in implementing Internal Audit recommendations
 - The effects of any significant changes in the City’s objectives, systems or external factors
 - Any limitations which may have been placed on the scope of Internal Audit

This report is supported, at **Appendix 1**, by a summary of all Internal Audit work from 2020/21.

Head of Internal Audit Annual Opinion

6. The Head of Internal Audit and Risk Management is satisfied that the breadth of scope and overall quantity of Internal Audit work undertaken is sufficient to be able to draw a reasonable conclusion as to the adequacy and effectiveness of the City Corporation’s control, governance and risk management processes. A total

of 58 Internal Audit reviews were completed in 2020/21, this represents 90% of all planned work.

7. A number of reviews were removed from the original 2020/21 plan to accommodate a reduction in the overall level of resources available to Internal Audit. Those reviews removed were assessed as low priority and the amendments made have been reported to Audit and Risk Management Committee during the year. This has not had an overall detrimental impact on the ability to provide an annual opinion.
8. On the basis of work undertaken, **it is the Head of Audit and Risk Management's opinion that the City of London Corporation 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 or that no fraud exists within the systems and processes examined or, indeed, those not examined.
9. Notwithstanding the overall opinion, Internal Audit's work identified a number of opportunities for improving controls and procedures, set out in our Audit reports to management. The range of assurance levels provided in our audit coverage and the number of Red, Amber and Green priority recommendations made is summarised below, with a more detailed analysis at Appendix 1.

Total Reviews Completed:	58
Red Assurance Ratings	3
Amber Assurance Ratings	28
Green Assurance Ratings	27
Total Recommendations Raised	257
Red Recommendations	11
Amber Recommendations	158
Green Recommendations	88

10. While the number of individual Red, Amber and Green assurance ratings provided is key in forming the Head of Internal Audit annual opinion, there are other factors that must be considered: Responses from management to Audit reviews; the integrity of action/recommendation implementation plans and the timescales agreed for resolving issues raised. Internal Audit reports have been well received and management action plans have been suitably robust. It should also be noted that the current audit follow-up regime results in a prompt second look at the risks and issues raised and, in many cases, provision of a revised (and improved) assurance opinion.
11. Internal Audit follow-up work to verify the implementation of recommendations made has been successful, the team undertaking over 50 follow-up reviews and providing Green revised assurance opinions in 36 cases. While some progress

had been made in the remaining instances, further follow-up work will be completed before closing these audits.

External Factors Having a Bearing on the Annual Opinion

12. The escalation of the COVID-19 pandemic and the nationwide response to the outbreak resulted in the activation of departmental business continuity arrangements and an organisation wide change in priorities. While the organisation has developed new ways of working, the pandemic has impacted delivery against the 2020/21 Internal Audit Plan; the team paused audit activity in a number of areas to avoid overloading front line services and also needed to adopt our own new ways of working. The resources available to the team were also significantly reduced as a result of our third-party partner provider of Internal Audit Services furloughing a significant element of its workforce. The 2020/21 plan was reduced accordingly to reflect this.
13. Both Member and Officer governance has operated differently during 2020/21, these changes will be reflected fully in the Annual Governance Statement, but are noteworthy for this report:

Member Governance:

After a successful initial emergency response with informal Committee meetings being held, the City of London was quick to establish virtual meetings using MS Teams and these have proven to be effective in operation. The increased use of technology has made it easier for Members to raise questions and comment on items of business and Committee meetings are now far more accessible to the public as a result of the live-streaming and subsequent publishing of recordings on YouTube.

Officer Governance:

The City of London has maintained a Gold Command structure throughout the pandemic, replacing Summit Group and its sub-groups. Departmental and service level Leadership teams have operated as per the direction of their Chief Officer.

Risk Management:

The Informal Risk Challenge process was refined to make this suitable for virtual meetings. This has introduced greater rigour and consistency in the process, which further ensures the effective oversight of risk management by this Committee. The Chief Officer Risk Management Group (CORMG) has not met regularly over the past year, while items of business have been considered via correspondence, it is worth noting that the richness and depth of discussion is diminished in the absence of face to face (albeit virtual) meetings.

Review of Performance

14. The Internal Audit team aims to maintain a high level of quality in the delivery of their work. Key outcomes were:
 - The Internal Audit team achieved delivery of 90% of the 2020/21 audit plan, despite the impact of the COVID-19 Pandemic

- Only 7 items of work have been carried forward into 2021/22 (compared to 11 in the previous year, 26 the year before)
- Remote working has introduced some new approaches to work, some of which are more efficient (e.g. convening meetings and removal of travel time) others less so (e.g. delays from departments owing to reliance on email for sharing information)
- A greater degree of rigour was introduced to the monitoring and oversight of delivery of the audit plan, this has expedited delivery in the second half of the year and will continue to be applied in future years

Conformance with the Public Sector Internal Audit Standards

15. The Public Sector Internal Audit Standards require an External Quality Assessment to be undertaken at least once every 5 years. The most recent review, completed 2017-18, confirmed that the Internal Audit function at the City Corporation *Generally Conforms* to the Public Sector Internal Audit Standards. The Standards require periodic self-assessment in the intervening years, this has been completed in April 2021 by the Head of Audit and Risk Management, using the CIPFA “Checklist for Assessing Conformance with the PSIAS and the Local Government Application Note”. The self-assessment found, similarly, that the Internal Audit function *Generally Conforms* to the standards.

Corporate & Strategic Implications

1. The Internal Audit Plan is designed to provide assurance as to the adequacy of the City of London Corporation’s systems of internal control and governance. This programme of activity is aligned with the Corporate Plan, Corporate Risk Register and Departmental Top Risks.

Conclusion

16. While Internal Audit work continues to identify improvement areas for management, 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 made.

Appendices

- Appendix 1 – Summary of Completed Audit Work

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