

<b>Committee(s)</b>	<b>Dated:</b>
Audit and Risk Management Committee	18/01/2022
<b>Subject: Internal Audit 2022/23 Programme of Work</b>	<b>Public</b>
<b>Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?</b>	<b>N/A</b>
<b>Does this proposal require extra revenue and/or capital spending?</b>	<b>N</b>
<b>If so, how much?</b>	<b>N/A</b>
<b>What is the source of Funding?</b>	<b>N/A</b>
<b>Has this Funding Source been agreed with the Chamberlain's Department?</b>	<b>N/A</b>
<b>Report of: Head of Audit and Risk Management</b>	<b>For Information</b>
<b>Report author: Matt Lock</b>	

### Summary

The approach to Internal Audit planning has been amended in accordance with industry guidance and emerging common practice. As a result, a programme of work has not been set for the 12 months from April 2022, instead, the programme of work will be developed and maintained on an iterative basis throughout the year. An initial programme of work, covering approximately 6 months is included as Appendix 1 to this report.

Key control and routine assurance work, to support the evaluation of the internal control environment, will continue to be delivered on a rolling basis.

The Audit and Risk Management Committee will receive more detailed plans of the work of Internal Audit as part of the quarterly update reports of the Head of Audit and Risk Management.

### Recommendation(s)

Members are asked to:

- Note the revised approach to Internal Audit Planning and progress reporting
- Agree the Initial Programme of Internal Audit Work for 2022/23

### Main Report

#### Background

1. Internal Audit is required to provide the S151 Officer, the Senior Leadership Team and the Audit and Risk Management Committee with an opinion on the adequacy and effectiveness of the organisation's governance, risk management and control arrangements. This opinion is predominantly based on the outcomes from the Audit work undertaken each year. The Audit and Risk Management

Committee is provided with regular updates on the outcomes of completed Audit work and the implementation of recommendations made.

### **Developing the Approach to Audit Planning**

2. As is the case in many professions, the pandemic has reinforced the need for Internal Audit to be more agile and adaptable to change. For the past two years, the Annual Internal Audit Plan has largely been a starting point, with an increasing number of changes being made throughout the year. The professional bodies have recognised this across all sectors and now advise against setting an annual Audit Plan, suggesting instead that 3 months is an appropriate maximum period. There is a degree of interpretation that must be applied to this, for instance, this approach works well for risk based or more strategic Audit reviews but is not so relevant for key control and more routine assurance work, which still must be undertaken to support the evaluation of the internal control environment. This latter category represents around 30% of the overall programme of work for the City of London Corporation and will continue to be delivered on a rolling basis, selected from the Audit Universe. In practice, approximately 35% of the overall Internal Audit work programme will be of the more responsive nature.
3. Benefits of this approach include:
  - More dynamic prioritisation of work and use of resources – able to adapt the plan for resource shortfalls (vacancy or other unplanned absence) and work around planned absences;
  - Continuous focus on current risk areas – greater potential for “assurance mapping”;
  - Better able to add in new Audits for emerging risk areas – improved relevance of Audit work throughout the year;
  - Greater transparency around the profile of the delivery of work (compared to measuring delivery across the year) – more measurable targets; and
  - More focus on programming and completing work to align with the Committee reporting cycle – ensuring completion of specific assignments to meet Committee deadlines.
4. Internal Audit Update reports are provided to this Committee on a quarterly basis, it is proposed that future updates will:
  - Provide a summary of outcomes from completed work.
  - Provide a status update for work in progress.
  - Set out the schedule work that the Internal Audit team will be completing in the period ahead.
5. The prioritisation methodology previously approved by this Committee (see Appendix 2) will continue to be applied.

### **Thematic Areas for Audit Coverage**

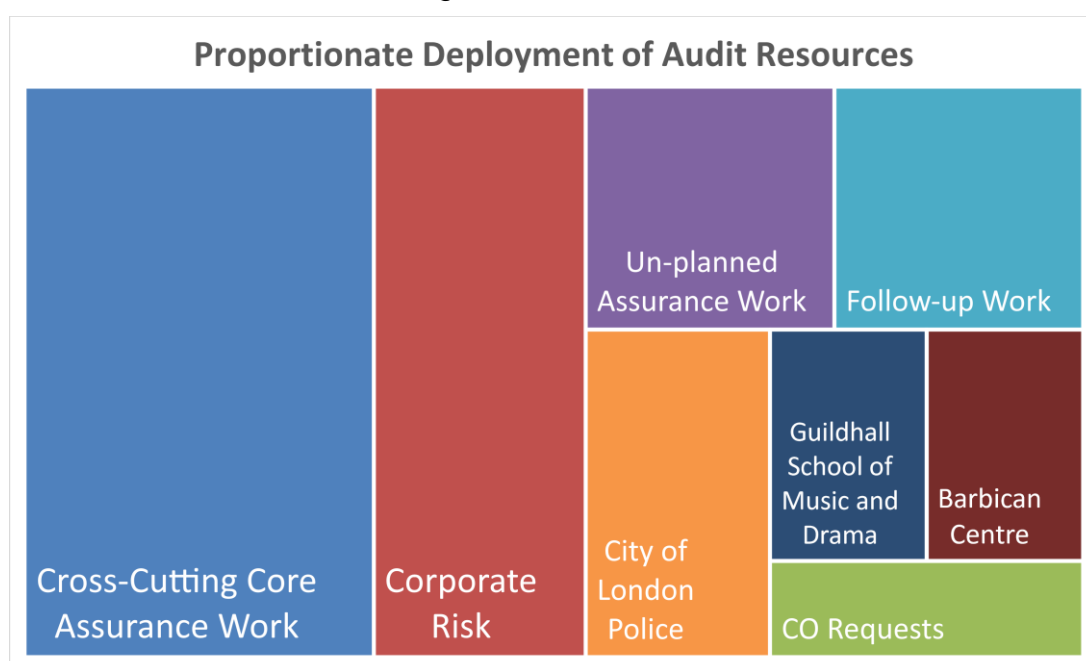
6. In preparing the programme of work for Internal Audit, we have drawn on professional networks (including but not limited to The Chartered Institute of

Internal Auditors, London Audit Group, Local Authority Chief Auditors Network) and internal resources (the Corporate Plan, Corporate Risk Register, consultation with Senior Leadership). The key themes of future Internal Audit work are:

- Equality & Inclusion
- Cyber Security
- Sustainability
- Safeguarding
- Culture
- Compliance
- Climate Action
- Collaboration
- Business Performance

Work undertaken will be a combination of specific Audits within the above and incorporating the themes within more routine Audit reviews; culture and collaboration, for example will largely be treated as considerations within all reviews, it is anticipated that these themes will remain relevant beyond the coming year.

7. The diagram shows how Internal Audit resources will be deployed across the year, based on current resourcing levels:



Appendix 1 sets out the current programme of work for 2022/23, this will be subject to review and change before 31 March 2022. The programme also includes more than 6 month's work based on current resources, allowing for a little more forward planning and creating a more manageable pipeline of work; a shortlisting exercise will be completed to prioritise timing of the work.

### **Sub-elements to the Programme of Work – Institution Audit Plans**

8. Approximately 25% of the overall Internal Audit work programme relates to the Institutional departments the City of London Police, Guildhall School and Barbican each operate separate (Sub) Audit Committees. While encompassed within the overall programme of work, these are operated as individual Audit plans, agreed with Institutional Senior Leadership and the Committees. As small

plans of 4-6 Audit reviews each year, these have naturally transitioned into a more fluid state, validating or amending the forward programme of work at each Committee meeting, so already follow the principles of the revised approach.

9. Bridge House Estates and the three Independent Schools do not currently operate a separate Audit Committee, Internal Audit coverage here is included within “Cross-Cutting Core Assurance Work”, which usually includes a small number of more specific reviews for each area.

### **Impact of the Target Operating Model Review**

10. The corporate wide TOM review is still in its delivery phase, with many team and service designs being finalised over the next 3 months. As a result, there remains an element of transition as we align the Internal Audit Programme with the new organisation structure, as was the case for 2021/22.
11. The structure and operation of the Internal Audit team was already largely in accordance with the TOM design principles so sees no significant change other than the introduction of more diversity in the grading of posts; intended to better support professional development and enhance strategic capacity within the team. The TOM is an opportunity to adapt the Audit approach, some information in relation to this is set out below, although more detail will be captured as part of the annual review of effectiveness that supports the Head of Audit Annual Report.

### **Continuous Improvement in Relation to the Audit Approach**

#### Agile Auditing

12. One of the key ways in which the effectiveness of Internal Audit work can be improved is in more timely reporting. In order to achieve this, a more agile approach is required in the delivery of individual Audit assignments, particularly for more complex reviews or where a strategic issue is identified at an early stage; rather than continue working to deliver the full scope of an Audit, it can sometimes be more useful and effective to issue an early report to allow management to address what may be fundamental issues, revisiting the remaining scope items at a later date (Start – Stop – Continue). This approach has successfully been applied in a small number of cases over the past year and it is anticipated that this will be deployed increasingly going forwards, a more flexible approach to Audit planning enables this.
13. Through active management of audits there is a conscious decision around the appropriate use of time (resources) and whether to spend less time, more time or continue as originally estimated. This forms part of weekly progress monitoring meetings.

#### Value For Money

14. The Internal Audit value for money (VFM) focus will be refined, in addition to the usual degree of consideration of VFM in the use of resources, we will be applying more explicitly the following parameters in our work:
  - **Effectiveness:** of internal controls to safeguard against fraud, loss and error and to support the delivery of objectives

- **Efficiency:** proportionality of existing controls, ensuring that an appropriate balance is achieved between risk and outcomes and the proportionality of recommendations made and issues or risks accepted by management
- **Economy:** giving due regard to the cost (financial and other resources) of implementing and applying control measures

#### Tailored Assurance statements

15. In addition to the assurance ratings currently used (Red/limited, Amber/moderate and Green/substantial), each Audit report will incorporate a short statement that sets the wider context of the assurance rating and its significance in forming an overall opinion on the wider internal control environment. It is anticipated that this will help to demonstrate the impact of a limited assurance opinion in a less significant audit compared to a moderate assurance opinion in a critical or materially significant system.

### **Corporate & Strategic Implications**

16. 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**

17. The Internal Audit planning approach has been amended to create a more dynamic and flexible programme of work. Rather than undertaking an annual planning exercise, the process will become more iterative, focussing on the work to be completed between each Committee update. The flexibility of the programme of Internal Audit work will support more efficient deployment of resources and help to ensure the continuous relevance of work completed.

### **Appendices**

- Appendix 1 - Initial Programme of Internal Audit Work for 2022/23
- Appendix 2 - Internal Audit Plan Prioritisation Methodology
- Appendix 3 - Audit Universe (Hyperlink available to Members on request)

### **Matt Lock**

Head of Audit and Risk Management, Chamberlain's Department

E: matt.lock@cityoflondon.gov.uk

T: 020 7332 1276