

Committee(s)	Dated:
Audit and Risk Management Committee	18/01/2022
Subject: Internal Audit Update	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

This report provides an update on Internal Audit activity since the last update provided to the October meeting of this Committee. The report summarises work completed and progress against the 2021/22 Internal Audit Plan, delivery of which is, overall, progressing well.

Work undertaken to evaluate recommendation implementation has found that action taken by management to address the issues previously raised by Internal Audit, while still reasonably prompt, is often not in accordance with agreed timescales. Second, and sometimes third, follow-up review is often required.

Recommendation(s)

Members are asked to note the report.

Main Report

Background

1. This report provides an update on the work of Internal Audit since the October Committee, covering:
 - Progress against the 2021/22 Internal Audit Plan
 - An overview of the outcomes from completed Internal Audit reviews
 - Outcomes from follow-up reviews undertaken to evaluate the effectiveness of previously raised Audit recommendations

2021/22 Internal Audit Plan Delivery

2. 7 Final Audit Reports have been issued since 1 October 2021, 3 Green Assurance ratings were given, 2 Amber Assurance ratings and 2 Red Assurance ratings. A total

of 24 Final Audit reports have now been issued since 1 April 2021. The overall outcomes from the recently completed Audit reviews are summarised in the following table:

Department/Audit	Assurance Rating	Recommendations Made		
		Red	Amber	Green
City of London Police - IT Service Provision: Contract Management and Performance	Red	1	4	2
Community and Children's Services - Housing Rents	Green	0	2	2
Chief Operating Officer (IT) - Information Management	Amber	0	7	5
Chamberlain's - Accounts Payable	Green	0	1	1
Corporate Wide - Major Projects Governance Arrangements - Salisbury Square Development	Amber	0	6	1
Corporate Wide - Infrastructure/Physical Security	Green	0	0	0
Community and Children's Services - Adult Skills and Education Services Income	Red	5	0	1

3. At the time of writing this report, there are 6 Audit reviews at Draft Report stage, 1 review with fieldwork complete and work is in progress at various stages for a further 8 reviews. The outcomes of which will be reported within the next progress update (the year end report) along with any other completed work.
4. Further detail is provided below in relation to the Red Assurance reviews:

City of London Police – IT Service Provision: Contract Management and Performance

5. This review was undertaken to examine the control framework in place to govern the provision of IT services to the City of London Police on a shared service basis.
6. The Audit established that there are some fundamental control weaknesses which, unless resolved, will continue to prohibit the effective operation of the shared service. Of most note is the absence of any clear and agreed definition of the relationship between the City of London Police (as service recipient) and the City Corporation IT team (as service provider), there was no consistent understanding of this relationship. A service level agreement (SLA), or some equivalent, is essential for the effective operation of such an engagement.
7. It is understood that dialogue on the development of an SLA for IT Services has recently recommenced and both parties are working to reach an agreed position. As part of this process, it is important to determine service requirements, evaluate whether these can be delivered within existing capabilities (financial and otherwise) and then to seek to define the relationship and service parameters in an appropriate document.

8. Various other issues were raised in the full report, for example the quality and frequency of management information provided to the City of London Police is not sufficient to enable effective oversight of IT Services. Again, it should be noted that this situation is improving as colleagues work together to better understand requirements.

Community and Children's Services - Adult Skills and Education Services Income

9. This audit was undertaken at the request of the Director of Community and Children's Services. The City's Adult Skills and Education Service (ASES) administers the delivery of training and education to adults predominantly in the form of Apprenticeships, Adult and Community Learning (ACL) and Adult Education Budget (AEB) courses. The purpose of this review was to evaluate the adequacy of the controls in place in relation to financial management and administration.
10. The review identified concerns in relation to the accuracy of funding returns submitted, the adequacy and effectiveness of the framework in place for monitoring Service expenditure, and recording and reconciling income received from learners. A further concern was raised in relation to decision making within the team, specifically, the absence of adequate referral to Senior Leadership.
11. In addition, the audit referred back to previously raised internal control issues, identifying that action in response to earlier Internal Audit recommendations has not been fully embedded.

Corporate Wide - Major Projects Governance Arrangements - Salisbury Square Development

12. While attention would usually only be drawn to the findings of those Audits where Red assurance ratings are given, the combination of the scale of the programme, the Amber assurance rating given and considering that this programme is being delivered alongside two other major programmes makes this noteworthy within this update report. The objective of this review was to examine the adequacy and effectiveness of governance arrangements for delivery of this major programme. The overall approved budget for the Salisbury Square Development is £596m. It should be noted that the agreed completion date is between quarter 4 of 2025 and quarter 1 of 2026; the programme is currently on track to complete at the agreed date.
13. The Audit review found that governance arrangements in place are generally satisfactory although some areas for improvement were identified:
 - There is an appropriate governance structure in place, which allows for effective management and escalation of risk, although the role and function of some elements of the governance structure and related processes had not been appropriately formalised and documented.
 - The (Executive) Project Board is currently operating only in an information receiving capacity and so is not effective in supporting CBC in its scrutiny and oversight, decisions are made almost exclusively by the Capital Buildings Committee (CBC). This could ultimately have an adverse impact on programme delivery, particularly as the programme enters the construction phase and approval requests increase in volume with greater demand for

more rapid decision making than the Committee cycle and work programme allows.

14. This Audit is part of a wider programme of work looking at governance arrangements for all of the Major Programmes. As this Audit work progresses, consideration will be given to the composite risk in relation to delivery of the portfolio and opportunities for learning/sharing best practice across the major programmes.

Internal Audit Follow-up Reviews

15. Details of recommendations implementation were last reported to this Committee in October 2021 and since that time, formal follow-up has been completed for 15 Audit reviews. A total of 101 recommendations were subject to follow-up, 59 of which have now been closed, leaving 42 open.
16. Appendix 1 sets out the detailed outcomes and reflects:
 - 7 Audits have received an improved assurance rating as a result of the follow-up exercise, the remaining 8 show no improvement in assurance rating
 - 2 Audits have moved from Red assurance to Amber, and 1 from Red assurance to Green
 - 4 Audits have moved from Amber assurance to Green
 - In 3 instances, individual Audit reviews were subject to two follow-ups within the period
 - There are no outstanding red priority recommendations from the follow-up exercises, the 42 live recommendations comprise 28 amber and 14 green
 - 10 audits have live recommendations requiring further follow-up (totalling 42 recommendations). Follow-up timing has been confirmed for 6 of these audits (ranging between February and June 2022). Revised target timescales are required for the remaining 4.
17. Formal Internal Audit follow-up is scheduled in line with target dates for implementation, as set out in the management response to audit reports, taking place promptly once original target dates for implementation have been reached. The purpose of prompt follow-up is to provide a timely assurance opinion in respect of recommendations implementation. Analysis of the follow-up outcomes shows that a high volume of 2nd follow-up Audits are required.
18. While we are still observing relatively prompt implementation of Audit recommendations, the Head of Audit and Risk Management is actively monitoring this as an indicator that it is the follow-up that is driving implementation rather than a positive culture of continuous improvement.

Corporate & Strategic Implications

19. 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

20. Delivery of work against the 2021/22 Internal Audit Plan is progressing well. The findings of Audit work have been well received by Management and appropriate actions have been identified to resolve the control weaknesses raised.
21. The Audit follow-up shows reasonable implementation of Audit recommendations, although often not in accordance with the original agreed timescales.

Appendices

Appendix 1 - Internal Audit Follow-Up Outcomes October to December 2021

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