

Committee(s)	Dated:
Audit and Risk Management Committee	24/05/2022
Subject: Head of Internal Audit 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 Internal Audit	For Information
Report author: Matt Lock	

Summary

The Public Sector Internal Audit Standards require the Head of Internal Audit 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 2022:

*"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 2021/22. 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 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 (of which there were none)

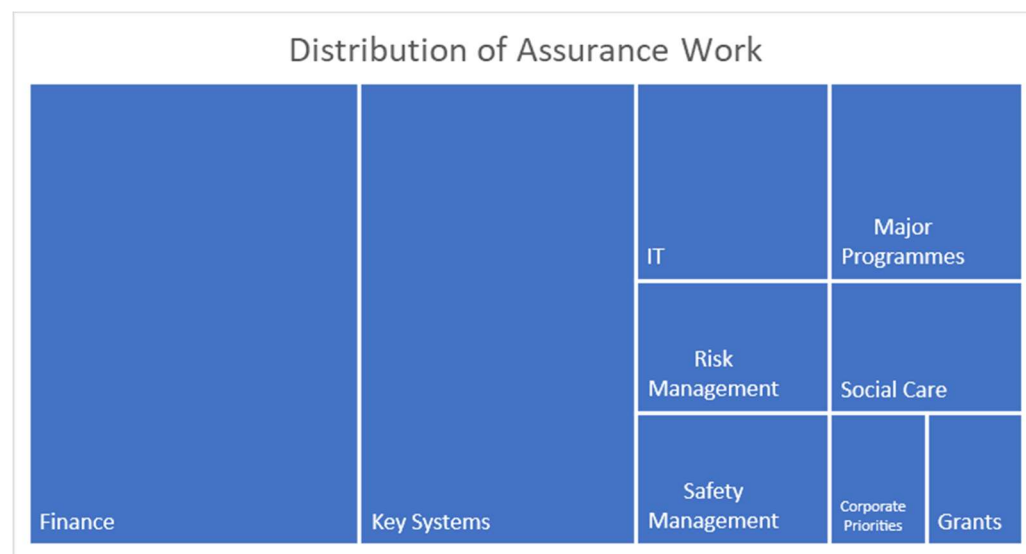
This report is supported, at Appendix 1, by a schedule of all Internal Audit work from 2021/22.

Head of Internal Audit Annual Opinion

6. The Head of Internal Audit 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. It should be

noted, however, that the Internal Audit function has been operating with a reduced level of resources, working within the constraints of the City of London Corporation's Target Operating Model review and making a direct contribution to financial savings target of the Chamberlain's department.

7. The Audit Plan for 2021/22 was actively managed throughout the year to reflect the resources available and also to accommodate emerging priorities. Overall, this has not had any detrimental impact on the ability to provide an annual opinion. A total of 36 final Internal Audit reports were issued in 2021/22, covering Finance, Key Systems, IT, Major Programmes, Risk Management, Safety Management, Social Care, Corporate Priorities and Grants. The proportionate distribution is shown below.



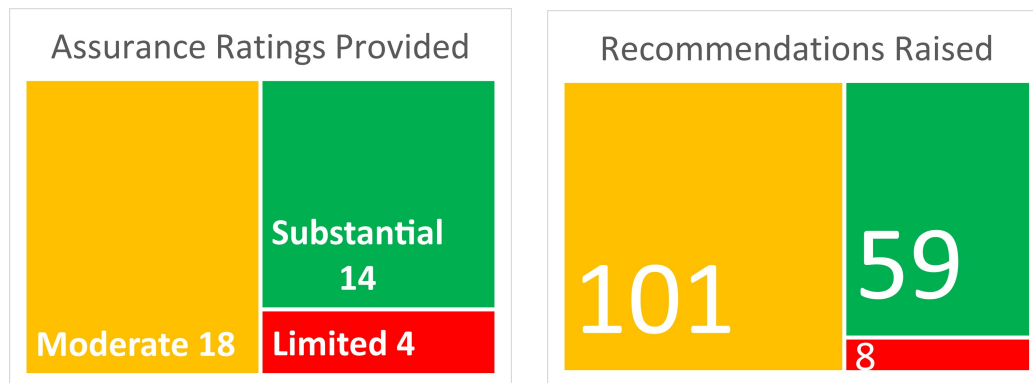
8. Having analysed the findings of completed Internal Audit reviews, the following key themes have been drawn out:

- Roles and Responsibilities
- Education and Awareness
- Formalised Governance
- Compliance and Enforcement
- Poorly Defined Deliverables
- Lessons Learned

None of the above are considered to represent significant or fundamental weaknesses within the overall internal control environment, this analysis has, however, informed the programme and focus of work for 2022/23.

9. On the basis of work undertaken, **it is the Head of Internal Audit'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.
10. 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.



11. 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.
12. Internal Audit follow-up work to verify the implementation of recommendations made has been successful, the team undertaking follow-up reviews in relation to 46 Audits and providing Green revised assurance opinions in 27 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

13. Financial pressures and organisational redesign have impacted the level of resource available for Internal Audit work. Priority has been given to work which most directly informs the annual opinion.

Conformance with the Public Sector Internal Audit Standards

14. The Public Sector Internal Audit Standards require an External Quality Assessment to be undertaken at least once every 5 years. Conformance with the standards is assessed as one of the following categories (defined in Appendix 2):
 - Generally Conforms
 - Partially Conforms
 - Does Not Conform

15. 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 2022 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. An External Quality Assessment is scheduled to take place in quarter 3 of 2022/23.

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. 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 and, overall, a high level of implementation has been demonstrated.

Matt Lock

Head of Internal Audit, Chamberlain’s Department

E: matt.lock@cityoflondon.gov.uk

T: 020 7332 1276