

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

Summary

This report provides an update on Internal Audit activity since the last update provided to the January meeting of this Committee. The report summarises work completed up to 31 March in accordance with the 2021/22 Internal Audit Plan, work completed so far in the current financial year and the anticipated forward programme of work for the period up to the next Committee meeting.

The report also presents two further items for the attention of the Committee:

- The Internal Audit Charter (updated)
- A protocol for the treatment of financial loss in the event of bank mandate fraud

Recommendation(s)

Members are asked to:

- Note the outcomes of completed Internal Audit work and the forward programme of Internal Audit work
- Approve the updated Internal Audit Charter
- Note the protocol for the treatment of financial loss in the event of bank mandate fraud

Main Report

Background

1. This report provides an update on the work of Internal Audit since the January Committee, covering:
 - 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
- The Internal Audit Charter, for approval as required by the Public Sector Internal Audit Standards
- An agreed protocol for the treatment of financial loss as a result of bank mandate fraud

Work Completed to 31 March 2022

- 12 Final Audit Reports have been issued between 1 January and 31 March 2022, 3 Green (Substantial) Assurance ratings were given, 7 Amber (Moderate) Assurance ratings and 2 Red (Limited) Assurance ratings. A total of 36 Final Audit reports were issued in 2021/22. The overall outcomes from the recently completed Audit reviews are summarised in the following table:

Department/Audit	Assurance Rating	Recommendations Made		
		Red	Amber	Green
Corporate Wide - Major Programmes Governance Arrangements - New Museum	Red	0	0	0
City of London Police - Funding	Red	2	1	1
City of London Police - Key Financial Controls - Payroll	Amber	0	2	0
Barbican Centre - Retail - Online Shop and Branded Merchandise	Amber	0	5	2
Barbican Centre - ED&I Consultancy	Amber	0	0	0
Corporate Wide - Major Programmes Governance Arrangements - Smithfield Market Landlord Works	Amber	0	4	0
Innovation and Growth - Project Management Approach	Amber	0	8	1
Chief Operating Officer - Payroll - Compliance Testing	Amber	0	5	2
Guildhall School of Music and Drama - Data Quality - Research	Amber	0	3	1
City of London School - Risk Management	Green	0	0	0
City of London School for Girls - Risk Management	Green	0	0	0
Community and Children's Services - Barbican Estates Rents	Green	0	0	1

- Further detail is provided below in relation to the Red Assurance reviews:

Corporate Wide - Major Programmes Governance Arrangements – New Museum

- Delivered alongside the Audit of the Smithfield Market Landlord Works programme, this Audit examined the role and responsibility of the City of London Corporation in relation to delivery and oversight of the New Museum Programme. Roles and responsibilities of the City of London's Members and Officers, in respect of the New Museum Programme's governance and decision making are not clearly defined,

documented or understood. The Audit found that the City of London Corporation appears to be seeking to treat this as a City Corporation programme: this is a programme of the Museum of London, under the control and direction of the Museum of London Board.

5. Internal Audit has no remit to make recommendations to Members, this matter is beyond the control of officers which is the reason the report made no recommendations. It is, however, the role of Internal Audit to provide an opinion on the adequacy and effectiveness of governance arrangements and in this instance it is not possible to provide assurance that the existing arrangements are fit for purpose and will be effective in contributing to the successful delivery of the New Museum Project - at present, there is a risk that existing arrangements will undermine successful delivery of the programme. This is a significant issue that, if left unresolved, may cause delays and increased cost in the delivery of the New Museum, which, given funding arrangements, may impact the City of London Corporation.
6. It is the view of the Head of Internal Audit that a clear protocol must be set out with the New Museum Board and the GLA as the other major funder, and this must be adhered to going forwards.
7. This matter was reported to the Chairman of Audit and Risk Management Committee and subsequently discussed with the Policy and Finance Committee Chairmen of the day along with the current Policy Chairman. Senior Members felt that this was best addressed within the implementation of the Governance Review.

City of London Police - Funding

8. The objectives of this review were to obtain assurance that there were adequate arrangements in place for:
 - Devising the City Police's 2021/22 to 2025/26 Medium Term Financial Plan (MTFP);
 - Determining the 'Funding Gap' in each of the 5 years to 2025/26 and devising income generation and savings activities to close the gap identified for the current financial year;
 - Monitoring the delivery of income generation and savings activities to ensure that they are on target for delivery.
9. The Audit review found that there were adequate arrangements in place for devising the 2021/22 to 2025/26 MTFP, the City of London Police established clear assumptions in relation to determining the funding, income, and expenditure forecasts. It was noted that the plan for 2021/22 was significantly reliant on income generation, which carries less certainty than securing operational efficiencies.
10. Progress against the proposed savings plan for 2021/22 was, at the time of the Audit, limited, although Senior Leadership were confident that the overall savings target of £5.6m would be achieved, albeit via alternate means such as staff vacancy savings. Internal Audit has not verified the year end outturn position.
11. Concern was also raised in relation to the extent to which the City Police will meet Home Office baseline requirements in respect of the headcount of Officers, it was

recommended that a more transparent approach be adopted for monitoring and reporting against this.

12. Recent benchmarking has identified that the overall level of Local Authority funding allocated to the City of London Police is proportionately lower than that provided to other Police Forces. While not examined as part of this Audit review, this is certainly something for the Force to examine further with Police Authority colleagues.

Work Completed Since 1 April 2022

13. 4 Final Audit Reports have been issued since 1 April 2022, Amber Assurance ratings were given in all instances. The overall outcomes from the recently completed Audit reviews are summarised in the following table

Department/Audit	Assurance Rating	Recommendations Made		
		Red	Amber	Green
Barbican Centre - Fire Safety	Amber	1	5	1
Corporate Wide - Emergency Planning - Lessons Learned from Pandemic Response	Amber	0	2	0
Corporate Wide - Climate Action - Data Quality	Amber	0	2	1
Chief Operating Officer - Change Management	Amber	0	3	1

14. At the time of writing this report, there are 6 Audit reviews in progress, the outcomes of which will be reported within the update to the July Committee:

Draft Report stage:

- City of London Police and Police Authority - Governance Arrangements
- Corporate Wide - Major Programmes Governance Arrangements - Markets Consolidation
- Guildhall School of Music and Drama - Data Quality – Finance

Fieldwork stage:

- City of London Police - Transform Programme – The "Golden Thread"
- Barbican Centre - Ticketing - Re-issue, Re-sale and Refund
- Teachers Pensions – Administration Errors

Internal Audit Follow-up Reviews

15. Details of recommendations implementation were last reported to this Committee in January 2022 and since that time, formal follow-up has been completed for 23 Audit reviews. A total of 105 recommendations were subject to follow-up, 60 of which have now been closed, leaving 45 open.
16. Appendix 1 sets out the detailed outcomes and reflects:
 - 8 Audits have received an improved assurance rating as a result of the follow-up exercise, the remaining 15 show no improvement in assurance rating, although noted that 6 of these were already assessed as “substantial assurance”

- 1 Audit has moved from Red assurance to Green, and 1 from Red assurance to Amber
- 6 Audits have moved from Amber assurance to Green
- In 3 instances, individual Audit reviews have now been subject to two follow-ups with a third review now required
- There are 2 outstanding red priority recommendations from the follow-up exercises, 28 amber and 15 green
- 14 audits have live recommendations requiring further follow-up.

Further Work Planned to 30 June 2022

17. It is anticipated that the following work will be initiated before the July meeting of this Committee, further update will be provided at this point:

- Chief Operating Officer - Procurement Category Management - Governance and Effectiveness
- Corporate Wide - IT Asset Management/User Account Management
- The Aldgate School - Schools Financial Values Statement Validation
- Barbican Centre - Cyber Security
- Guildhall School of Music and Drama - Cyber Security
- Identification and assessment of 2nd Line of Defence Functions (on-going programme)
- Corporate Risk Mitigations - assessment of action taken, milestones and effectiveness (on-going programme)

The team will also be completing work for London Councils and the Museum of London, in accordance with the long-standing service level agreements with these organisations for the provision of Internal Audit services.

Other Internal Audit Matters:

Internal Audit Charter 2022

18. The Public Sector Internal Audit Standards (PSIAS) require all Internal Audit services operating within the public sector to produce an Internal Audit Charter. The Charter should be reviewed annually and presented to the Audit and Risk Management Committee for approval.
19. The Internal Audit Charter has been reviewed against the criteria specified in the latest version of the PSIAS and current operational practice. The review resulted in no material amendments in relation to the primary work of Internal Audit, the only change of note is to reflect that the Head of Internal Audit is no longer operationally responsible for the Corporate Risk Management function. The updated Internal Audit Charter is included as Appendix 2 to this report with the updates shown as tracked changes.

Protocol for Treatment of Financial Loss Resulting from Bank Mandate Fraud

20. Following a recently prevented mandate fraud at the City of London Corporation it was deemed sensible to consider how cases would be treated should the organisation suffer a financial loss. The primary driver for considering this was to eliminate ambiguity in approach and remove the potential for internal dispute as to how the cost of any related fraud is met. This scenario was discussed with Chamberlain's senior

finance officers and an agreed approach identified. The resulting protocol is attached as Appendix 3 for Members' information, in short, it was agreed that the cost of fraud should be borne by the fund from which the transaction originated.

Corporate & Strategic Implications

21. 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

22. Delivery of work against the 2021/22 Internal Audit Plan is concluded, this work has informed the overall Head of Internal Audit Annual Opinion as separately reported to this Committee. The findings of Audit work have been well received by Management and appropriate actions have been identified to resolve the control weaknesses raised.
23. 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

Appendix 2 – Internal Audit Charter (marked up version)

Appendix 3 - Protocol for Treatment of Financial Loss Resulting from Bank Mandate Fraud (**not for publication**)

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