

Committee(s)	Dated:
Audit and Risk Management Committee	12/05/2022
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: the Chamberlain	For Information
Report author: Matt Lock, Head of Internal Audit	

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 2023:

*"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 2022/23. 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)

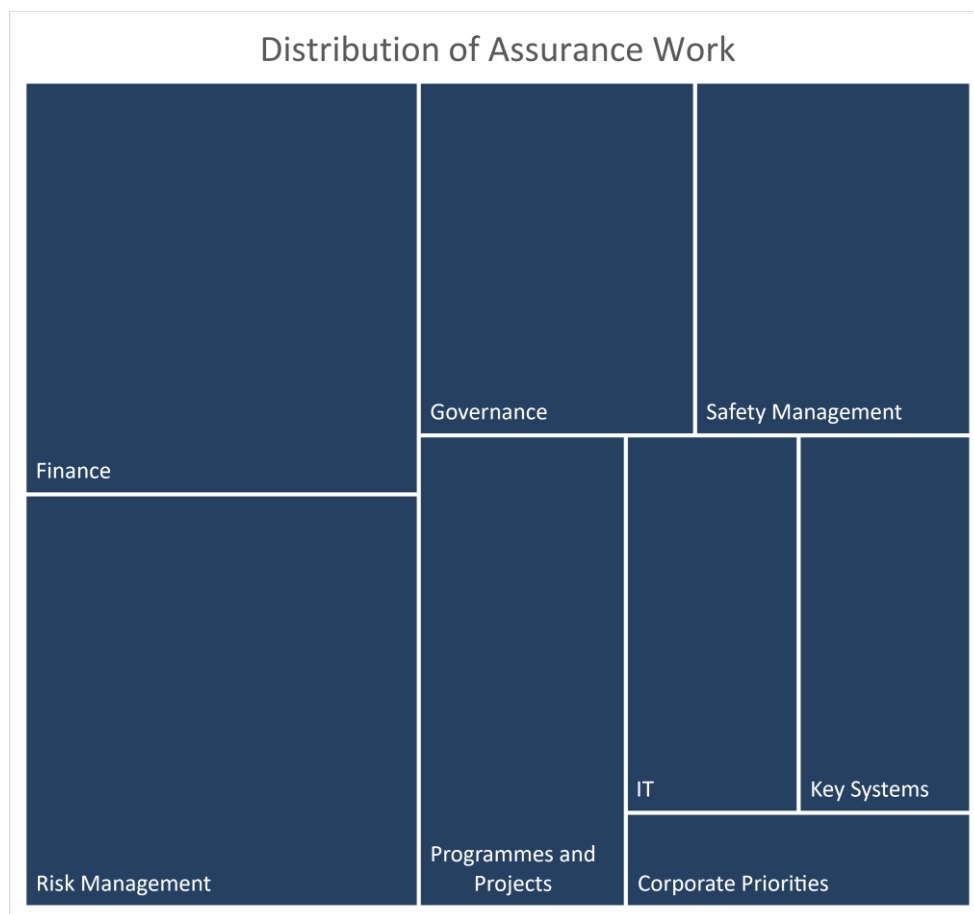
This report is supported, at Appendix 1, by a schedule of all Internal Audit work from 2022/23.

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

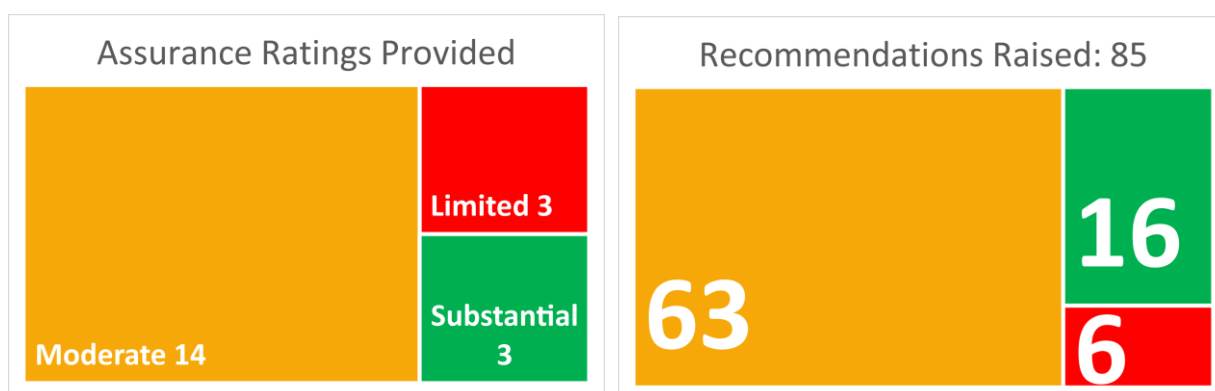
noted, however, that the Internal Audit function has been operating with a reduced level of resources, managing transition to the new operational structure of the team in accordance with the City of London Corporation’s Target Operating Model review. Key components of this include managing vacancies following retirement and recruitment to new positions. The Internal Audit team was fully staffed for only the final quarter of the year and it should be noted that two of the recently filled positions are entry level apprenticeships.

7. The programme of Internal Audit work for 2022/23 was actively managed throughout the year to reflect the resources available and also to accommodate emerging priorities. Regular updates have been provided to the Audit and Risk Management Committee, covering outcomes from completed work and detail on the forward programme of work. A total of 20 final Internal Audit reports were issued in 2022/23, covering Finance, Key Systems, IT, Programmes and Projects, Risk Management, Safety Management and Corporate Priorities. The proportionate distribution is shown below.



8. Having considered the findings of completed Internal Audit reviews, there are no apparent themes other than that, in the main, issues raised relate to the consistent and correct application of internal controls rather than an absence of controls. It should be noted, however, that there is currently only limited data to support this hypothesis, a system of issue classification is being considered as part of an audit management system upgrade.

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 Limited, Moderate and Substantial 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 have undertaken 53 follow-up reviews to verify the implementation of recommendations made, some of which have been 2nd or 3rd examinations of previously completed audits. As previously reported to the Committee, implementation of Audit recommendations is broadly satisfactory, there are currently only 19 recommendations that are not implemented at the point of 1st follow-up (i.e. in accordance with the original timescales agreed with management).

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. It has also been necessary to consider the skills and experience of the team, in accordance with the Public Sector Internal Audit Standards.

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 Standards require periodic self-assessment in the intervening years, this has been completed in March 2023 (later than planned) by the Head of Internal Audit, using the CIPFA “Checklist for Assessing Conformance with the PSIAS and the Local Government Application Note”. The self-assessment found that the Internal Audit function *Generally Conforms* to the standards. An External Quality Assessment (EQA) was scheduled to take place in quarter 3 of 2022/23, although this has been delayed owing to the capacity of the Internal Audit team to prepare the required information. The EQA is a validation based on the completed self-assessment and so there is no material impact of this delay, although it should be noted that it has now been a period greater than 5 years since the last EQA, which represents a point of non-conformance in itself (one of 135 criteria).

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.

Appendices

- **Appendix 1** - Internal Audit Reviews Completed in 2022/23

- **Appendix 2** - Public Sector Internal Audit Standards – Definitions of Conformance Assessment

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