

Committee(s)	Dated:
Finance Committee	23/07/2024
Subject: Internal Audit Additional Funding Request	Public
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	Providing Excellent Services
Does this proposal require extra revenue and/or capital spending?	Yes
If so, how much?	£50k
What is the source of Funding?	Finance Contingency Fund
Has this Funding Source been agreed with the Chamberlain's Department?	Yes
Report of: the Chamberlain	For Decision
Report author: Matt Lock, Head of Internal Audit	

Summary

This report seeks additional funding of £50k to support measures to ensure the sustained effectiveness of the Internal Audit service of the City of London Corporation.

Imposed financial savings have resulted in an overall reduction to the Internal Audit resource allocation of 37% over the past 4 years. While a financially viable staffing structure was introduced to fit this budget envelope, this is not operationally sustainable. The Chamberlain has highlighted an increasing risk in the effectiveness of internal control which increases the audit requirement. Additional funding is required in the longer term to enable the retention of Auditors in training as their professional development evolves, building an experienced team. In the immediate term it is necessary to introduce additional management support to enable a more systematic approach to Internal Audit planning and performance reporting and for temporary Senior Auditor resource to supplement the delivery capability of the existing team. Finance Committee Contingency funding is requested to partially support the cost of this in 2024/25. The request for ongoing additional funding is to be made as part of the 2025/26 budget setting.

Recommendation(s)

Members are asked to approve the request of £50k, to be met from Finance Committee Contingency, to fund the creation of a new Deputy Head of Internal Audit position.

Main Report

Background

1. The financial resource allocation for the City of London's Internal Audit service has reduced by 37% in real terms over the past 4 years.

2. The staffing structure of the team was redesigned to meet the design principles of the TOM and to maximise the establishment within the agreed financial envelope, seeing a reduction from 2 to 1 Audit Manager positions and the introduction of 3 junior Auditor positions (including 2 Apprenticeship positions). Various operational efficiencies have also been introduced during this period, including a move away from systematic annual planning of the Internal Audit Programme of work, adopting a more agile but reactive approach to planning.

Current Position

3. Having reviewed Internal Audit coverage in 2023/24 and the resource capability of the current team, the Head of Internal Audit has identified that the resource base is not sufficient to sustain an effective Internal Audit function. There are two elements to this:
 - a skills and experience deficit whilst Auditors in training reach professional maturity, combined with a period of vacancy and long-term absence.
 - Insufficient management capacity to ensure strategic alignment of Internal Audit work, effective engagement with stakeholders and sufficient attention to continuous improvement of the service.
4. This matter has been discussed with the Chamberlain and the Audit and Risk Management Committee and a proposal to supplement the existing Internal Audit team with additional temporary Senior Auditor resource and to create a new Deputy Head of Internal Audit position is supported. The resource request and business case presented is included as Appendix 1 to this report.
5. The ongoing cost of these changes will be factored into the budget setting process for 2025/26 and beyond. The cost of the temporary Senior Auditor resource in 2024/25 will be accommodated by vacancy savings, the cost of the Deputy Head of Internal Audit in 2024/25 has been flagged as a budget pressure for which Finance Committee Contingency Funding is sought.
6. The full year cost of the Deputy Head of Internal Audit position is estimated at £105k, factoring in time to create the position and for recruitment and on-boarding, it is anticipated that the maximum funding requirement for 2024/25 is £50k. Should Finance Committee approve this request, the balance of any unrequired funds will be returned to Contingency once an appointment is made and a start date is confirmed.

Key Data

7. Various data is included in the business case at Appendix 1 in support of this request. The City of London Corporation had the second smallest Internal Audit Programme in 2023/24 from a survey of 22 London Authorities, 50% of the size of the largest respondent.

Corporate & Strategic Implications

8. An increase in the level of non-compliance with Financial Regulations and other standard operating procedures has been observed over recent years and this is, in part, considered to be attributable to a reduced Internal Audit presence across the

organisation. The increased risk in relation to effective internal control is held in the Chamberlain's departmental risk register.

9. The reduction in Internal Audit Management capacity has meant that it is not possible to maintain regular liaison with all Chief Officers and their Senior Leadership teams. This, and the lack of suitably qualified and experienced Auditors to complete Internal Audit reviews, have driven the move away from longer term Internal Audit planning which, as well as proving operationally demanding on the Head of Internal Audit to manage on an ongoing basis, has attracted criticism from External Audit. Detailed Internal Audit planning requires an investment of time at specific points of the year, there is no capacity in the current team structure to support this.
10. An effective Internal Audit service is one of the key elements of good governance, the Accounts and Audit Regulations 2015 state that "A relevant authority must 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 or guidance." A reduced or ineffective Internal Audit service increases the risk of internal control failure and an increased threat to the overall achievement of organisational objectives.

Conclusion

11. Additional funding is required to support the provision of an effective Internal Audit Service and an appropriate programme of work that is proportionate to the size, scale and complexity of the City of London Corporation.

Appendices

- Appendix 1 – Internal Audit – Additional Resource Request Business Case
- Appendix 2 – Internal Audit Staffing Structure

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