

<b>Committee(s):</b> Audit and Risk Management Committee - For Information	<b>Dated:</b> 04/11/2024
<b>Subject:</b> Internal Audit Update	<b>Public</b>
<b>Report of:</b> Matt Lock – Head of Internal Audit	<b>For Information</b>
<b>Report author:</b> <b>Matt Lock, Internal Audit – Chamberlain’s Department</b>	

### Summary

This report provides an update on Internal Audit activity during September and since the last update provided to the Committee. 3 Final Reports have been issued and work is in progress at various stages for a number of Audit reviews including 5 Audits at Draft Report stage and 9 reviews at Fieldwork stage. A full Internal Audit Plan has been prepared for the second half of 2024/25, moving away from the rolling programme approach adopted over the past 2 years.

Maturity assessment and gap analysis against the Global Internal Audit Standards confirms broad alignment with expectations and identifies a continuous improvement pathway to achieve best practice within the profession.

### Recommendation(s)

Members are asked to note the report.

### Main Report

#### Background

1. This report provides an update on the work of Internal Audit during September 2024, since the last update provided to the Committee, specifically, an overview of the outcomes from completed Internal Audit reviews. Appendix 1 to the report shows analysis in relation to completed Audit work, including the cumulative report for the year to date.

#### Current Position

2. Final Audit Reports have been issued in respect of 2 Audit Reviews, resulting one Limited Assurance opinion and one Moderate Assurance opinion. A further Audit report was issued to bring together the findings from the programme of Corporate Risk Assurance reviews completed over the past 2 years. The overall outcomes from the recently completed Audit reviews are summarised in the following table with further information provided below for the Limited Assurance outcomes:

Audit Assignment	Assurance Rating	Recommendations Made		
		Red	Amber	Green
Community and Children's Services – Risk Management	Limited	3	0	0
Innovation and Growth – Operational Expenditure	Moderate	0	7	0
Corporate Wide – Application of the Risk Management Framework	Limited	1	0	0

### Community and Children's Services – Risk Management

3. This audit forms part of a rolling programme of departmental risk management reviews, with the Chief Strategy Officer as sponsor. The overall objective of each assignment is to evaluate departmental application of the City's Risk Management Framework, providing assurance in respect of:
- Departmental conformance with corporate expectations i.e. the components of the risk management framework, supporting a consistent approach to identifying, mitigating and managing risks.
  - Effectiveness of departmental arrangements for risk administration, including the extent to which 'risk champions' are deployed to support a strong risk culture.
  - Departmental facilitation of effective risk management governance and oversight, including the quality of risk-related reporting to senior management and Members.
  - The extent to which departmental risk management arrangements ensure linkage with the delivery of strategic objectives/priorities in the City's Corporate Plan and departmental Business Plans.
4. Overall, limited assurance was provided in respect of the areas within the scope of audit – in particular, departmental application of the City's Risk Management Framework, including the maintenance and management of risk registers, and the sufficiency of reporting to Members to facilitate effective risk management oversight. Key findings include the following:
- Inconsistencies were noted in application of the risk management framework through reviews of risk register content and associated information within Ideagen and characterised by variations in articulation of risks and interpretations of key information fields within Ideagen.
  - Internal Audit observed that there was significant reliance on Business Support Managers (Ideagen risk administrators) to ensure the accuracy and completeness of information contained within risk registers, rather than the subject matter experts who own the risks and are responsible for the delivery of mitigating actions - compromising effective deployment of risk champions.
  - The department has not met Risk Management Policy expectations in terms of regular, at least quarterly, reporting of risk registers to Committee; there

was a local lack of awareness of this requirement prior to the audit and therefore no specific reporting in this respect.

- Key departmental risks were broadly reflected in business plans indicating linkage between risk registers and departmental strategic priorities. Arrangements to support collaborative risk management and share key intelligence were observed to be less mature. Internal audit is aware that there is improvement work underway corporately via the Corporate Strategy team to further develop these areas.
5. The department has provided a robust response to the Audit report, with all recommendations agreed to be implemented by the end of the financial year

#### Application of the Risk Management Framework

6. This report brought together findings and observations in respect of risk management from a range of recent Internal Audit assurance work and related activities. Opportunities are highlighted to improve the application of risk management across the City of London Corporation (CoLC) and it is intended that this will support corporate learning and delivery of the Risk Management Strategy.
7. As previously reported to Committee, the reviews of Corporate Risk identified widespread shortcomings in application of the corporate risk management framework, as indicated by corporate risk register content, associated information within Ideagen, and discussion with risk owners and staff involved in risk administration. In several cases, the risk registers did not accurately reflect the active management of the risks. Further thematic issues were identified such as inconsistencies in the approach to risk articulation, risk categorisation, and determination of target dates.
8. The outcomes of risk specific Internal Audit risk reviews were circulated on an individual review basis to risk owners and Chief Officers as appropriate; improvement principles were highlighted as opposed to formal audit recommendations being made. Whilst improvements have been noted in some instances, recent risk register analysis has highlighted a wider need for action to ensure wholesale alignment with the risk management framework. An overarching audit recommendation has been made for the collective findings, to be incorporated within plans to support delivery of the Risk Management Strategy 2024-2029.

#### **Internal Audit Maturity Assessment**

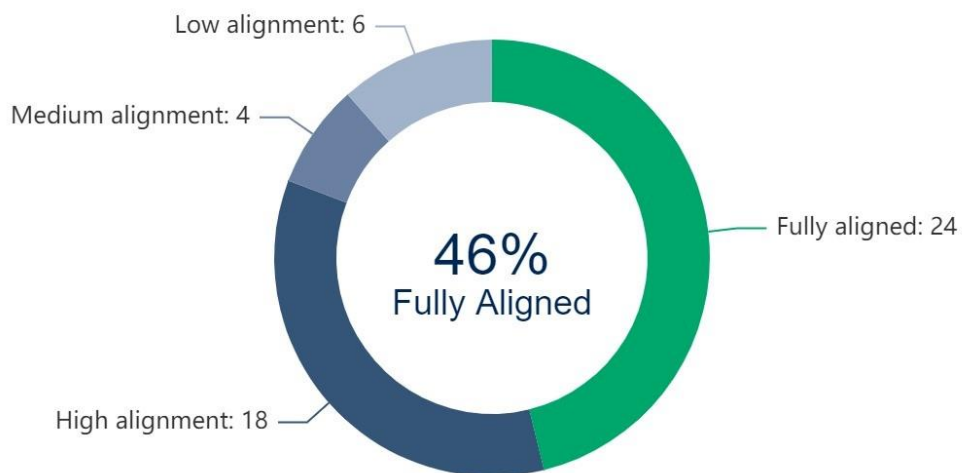
9. The City Corporation's Internal Audit function has been benchmarked against the Gartner UK Audit Score maturity model. Ranking on a 5 tier scale, the function was assessed as level 3, consistent with the peer benchmark. The full outcome report from the assessment is included as Appendix 2 to this report, Members will see that this includes clear guidance as to the steps required to achieve a higher level of maturity and access to a range of materials to support this.

10. The assessment will be used to inform the Internal Audit Quality Assurance and Improvement Plan (a mandatory element of the Internal Audit Standards), oversight and delivery of which will form a key part of the role of the incoming Deputy Head of Internal Audit. There is a high degree of confidence that a maturity level of 4 can be achieved within the existing structure and resources of the Internal Audit function, the likelihood of progression beyond this will be considered in due course although it remains the aspiration to become an exemplary service.

### Evaluation Against the Global Internal Audit Standards

11. Gap analysis has now been completed to evaluate the extent to which existing Internal Audit practices and methodologies align to the Global Internal Audit Standards (effective from January 2025). The full assessment is included as Appendix 3 to this report, however conformance is summarised in the graphics below:

### Aggregate Standards and Practices Alignment Results



Generated with Gartner's Audit Standards and Practices Evaluation Tool

### Self-Assessment Results by Domain



12. This analysis reflects the overall assessment against the current Internal Audit Standards of "Generally Conforms" and also aligns to the findings of the Internal Audit Maturity Assessment. It is encouraging to note that the areas for enhanced conformance substantially relate to increased expectations within the

professional standards, Members are reminded that it was the intention of the standard setter, in the interests of continuous improvement, to raise the bar for the Internal Audit Profession.

### **Forward Programme of Work**

13. Appendix 1 includes the intended Internal Audit Plan for quarters 3 and 4 of the current financial year. It should be noted, however that this is subject to review and change pending the outcome of detailed Audit assignment planning and engagement with service leaders. Members are asked to share any feedback in relation to the indicative programme of work.

### **Corporate & Strategic Implications**

Strategic implications

14. The work of Internal Audit 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.

Financial implications – None

Resource implications – None

Legal implications – None

Risk implications

15. The work of Internal Audit identifies weaknesses within the internal control environment, risk management and governance processes of the organisation. Internal Audit reports set out the associated risks to the achievement of objectives and make recommendations to mitigate these risks.

Equalities implications – None

Climate implications – None

Security implications – None

### **Conclusion**

16. The Audit and Risk Management Committee should note the outcomes of recently completed Internal Audit work, progress made by the organisation in relation to recommendation implementation and also the forward programme of work for the remainder of the year. While Internal Audit work identifies areas for improvement within the systems and processes examined, the findings of Audit work have been well received by Management and appropriate actions have been identified to resolve the control weaknesses raised.

17. Members should note the outcome of the recent Internal Audit maturity assessment and gap analysis against the Global Internal Audit Standards, both of which confirm broad alignment with expectations and support the continuous improvement of the Internal Audit function.

## **Appendices**

- Appendix 1 – Internal Audit Dashboard
- Appendix 2 – Internal Audit Maturity Assessment
- Appendix 3 – Gap Analysis Against the Global Internal Audit Standards

## **Background Papers**

- Internal Audit Update – September 2024
- Internal Audit Update – May 2024
- Head of Internal Audit Annual Opinion – May 2024

## **Matt Lock**

Head of Internal Audit

T: 020 7332 1276

E: [matt.lock@cityoflondon.gov.uk](mailto:matt.lock@cityoflondon.gov.uk)]