

<b>Committee(s):</b> Audit and Risk Management Committee - For Information	<b>Dated:</b> 03/02/2025
<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 in quarter 3 of 2024/25 and since the last update provided to the Committee. 10 Final Reports have been issued and work is in progress at various stages for a number of Audit reviews including 3 Audits at Draft Report stage and 13 reviews at Fieldwork stage.

In accordance with the requirements of the Global Internal Audit Standards, an Internal Audit Strategy has been prepared. This strategy underpins the continuous improvement plan for the City Corporation’s Internal Audit function.

### Recommendation(s)

Members are asked to note the report.

### Main Report

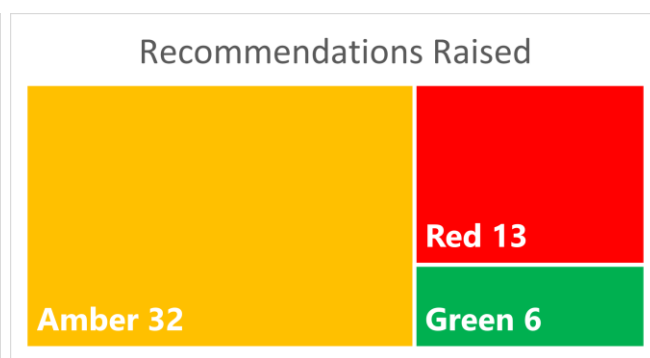
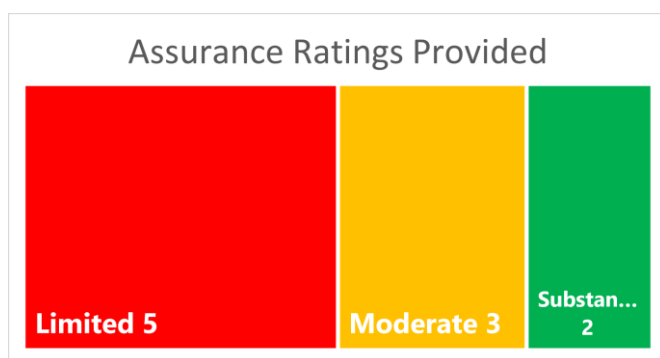
#### Background

1. This report provides an update on the work of Internal Audit during October, November and December 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 10 Audit Reviews, resulting 5 Limited Assurance opinions, 3 Moderate Assurance opinions and 2 Substantial Assurance opinions. 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
Barbican Centre - Financial Procedures Framework	Moderate	1	6	1
Corporate Wide - Procurement Authorisation Process	Limited	1	0	0
Corporate Wide - Contract Register and Contract Management	Limited	1	0	0
City of London Police - Payroll Controls	Substantial	0	5	2
City of London Police - Accommodation Programme Governance	Limited	0	3	0
Corporate Wide - IR35 Compliance	Limited	5	1	0
Barbican Centre - Contract Management	Limited	4	5	0
Innovation and Growth - P-Cards	Moderate	1	5	1
Environment - Planning Governance	Moderate	0	5	2
Environment - City Operations Risk Management	Substantial	0	2	0



### Corporate Wide - Procurement Authorisation Process

3. This was a thematic issue report, bringing together findings and observations of a Corporate nature arising from a range of recent Internal Audit work. Opportunities were highlighted to improve the overall application of the PAR process (intended to promote a compliant approach to procurement between £10k and £100k).
4. Internal Audit work across several departments identified shortcomings in the application of the PAR process, identifying recurring issues such as:
  - Inaccurate PAR content – errors and potential misrepresentation which had not been identified / addressed at sign-off.

- Incomplete PARs (fields not populated) or insufficient details provided to ensure transparency and facilitate review and sign-off.
  - Indicators that 'preferred supplier' relationships may exist.
  - Difficulties demonstrating that value for money has been pursued.
5. A single recommendation has been made to address these issues within the process.

#### Corporate Wide - Contract Register and Contract Management

6. This was a thematic issue report, bringing together early findings and observations of a Corporate nature arising from the current rolling programme of Contract Management Internal Audit work. Key findings include:
- Inaccuracies in the contract register.
  - A lack of departmental awareness of the contracts register and contracts in place.
  - Contract review dates too late to allow sufficient time for effective review prior to expiry.
  - Varied departmental understanding of the principles of effective contract management and a lack of understanding of corporate expectations.
7. A single recommendation has been made to support the Commercial team in addressing these issues.

#### City of London Police - Accommodation Programme Governance

8. The purpose of the Audit was to examine the extent to which:
- Programme and portfolio documentation and governance encompasses all Police accommodation requirements.
  - Solutions have been identified to meet the requirements and with appropriate delivery plans in place.
  - Funding has been identified and secured to meet the requirements.
  - Governance arrangements are appropriate (at a programme level) to support effective delivery of agreed outcomes.
9. The audit found that there have been material enhancements to financial monitoring arrangements during the lifecycle of the programme. These enhancements, however, were not sufficient or timely enough to manage fully the impact of emerging financial risks (increases to build cost estimates and subsequent unprecedented spikes in inflation) within the original resource allocation of the programme. Further, there was no evidence of reassessments of the adequacy of the optimism bias provisions, or adjustments to the budgetary envelope at programme level to adjust for these factors.

10. Opportunities were identified to enhance documentation of Police accommodation requirements across the programme, specifically, creation of a singular document that encompasses programme components from 'requirement' level through to solution (including the IT and FFE components applicable to each solution).
11. There is also scope enhance governance arrangements by empowering the SRO, FPEP board and PAB with decision making authority in respect of programme finance, scope, resources and risk at the wider programme level.
12. Three recommendations were made to address these issues.

#### Corporate Wide - IR35 Compliance

13. The purpose of the audit was to provide assurance as to the extent to which there are adequate processes and controls in place to ensure compliance with IR35 rules across the City Corporation's departments, focusing on the following two key elements:
  - Corporate arrangements – via Corporate HR as the lead point of contact.
  - Departmental compliance – via sample testing across a range of departments.
14. Overall, limited assurance was provided in respect of the areas within the scope of the audit – largely due to significant control weaknesses and gaps which could put the City at risk of non-compliance with IR35 rules. Key findings were:
  - There was a lack of clear ownership and responsibility for City-wide monitoring and oversight.
  - The corporate IR35 procedure document does not offer guidance on interpreting the questions contained within HMRC CEST tool.
  - There was no evidence of training or communications in respect of IR35 requirements and procedures to hiring managers.
  - There is no evidence trail to demonstrate effective IR35 compliance monitoring.
  - There is no complete record of directly engaged contractors.
15. Five high priority and one medium priority recommendations were made to strengthen the control framework.

#### Barbican - Contract Management

16. To provide assurance in respect of the effectiveness of local arrangements for ensuring that:
  - Responsibilities relating to contract management are clearly defined and communicated to ensure that these are appropriately allocated, clearly understood and complied with.

- Agreed mechanisms for measuring contractor performance and service delivery are applied to facilitate contract monitoring.
- Monitoring of contractor performance and service delivery takes place on a timely and regular basis to ensure that contractual obligations are being met and required outcomes achieved.
- Prompt and proportionate action is taken, in line with contract terms, to address poor contractual performance.
- Forward planning for contract review factors in the lead-in time for decision-making.

17. The findings of the audit reflect those reported above in Corporate wide thematic issue report. These have been reported in detail to the Finance & Risk Committee of the Barbican Centre Board which will be overseeing the implementation of recommendations made.

### **Forward Programme of Work**

18. Appendix 1 includes the intended Internal Audit Plan for quarter 3 of the current financial year.

19. The full forward programme of work for 2025/26 is currently in development, consultation with Senior Leadership is ongoing. The programme of work will be built around three core elements;

- Continued delivery of the rolling programme of Corporate wide audits of Contract Management, Risk Management and Fees and Charges.
- Institutional plans developed in consultation with management and relevant Sub-Committees
- Intensive follow-up of overdue Internal Audit Recommendations.

More detail in relation to the Internal Audit Plan will be reported to the subsequent meeting of this Committee.

### **Internal Audit Strategy**

20. In accordance with the requirements of the Global Internal Audit Standards, an Internal Audit Strategy has been developed. The purpose of this strategy is to support and drive the development of the service over the coming years, particularly in meeting our vision: *To be a best-in-class Internal Audit function, driving excellence through proactive delivery of assurance work, embracing innovation within our Audit practices, and demonstrating commitment to integrity and transparency in all that we do.* The strategy is included as Appendix 2 to this report, supported by an outline of the key activities to deliver the strategy.

### **Corporate & Strategic Implications**

Strategic implications

21. 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

22. 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**

23. The Audit and Risk Management Committee should note the outcomes of recently completed Internal Audit work. 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.

### **Appendices**

- Appendix 1 – Internal Audit Dashboard
- Appendix 2 – Internal Audit Strategy

### **Background Papers**

- Internal Audit Update – November 2024
- 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)