

Committee(s):	Date(s):
Audit and Risk Management Committee	25 th June 2013
Subject: Head of Internal Audit Annual Report and Opinion	Public
Report of: Chamberlain	For Information
<p>Summary</p> <p>The Head of Internal Audit has prepared an annual internal audit report and opinion for the financial year 2012/13 which, is set out in this report. The opinion is as follows:-</p> <p><i>“I am satisfied that sufficient quantity and coverage of internal audit work and other independent assurance 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.</i></p> <p><i>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 these processes.</i></p> <p><i>Notwithstanding my overall opinion, internal audit’s work identified a number of opportunities for improving controls and procedures which management has accepted and are documented in each individual audit report. Timeliness in the implementation of priority audit recommendations has improved during the year, although implementation according to the originally agreed timescales is often not achieved. The new Strategic Risk Management arrangements have become embedded during the year. Opportunities exist for enhancing the operation of the risk management framework across the organisation; an improvement programme is being progressed.”</i></p> <p>One area of emphasis is highlighted in the internal audit opinion relating to controls operating within some areas of Community and Children Services; focused management attention is required in relation to the control of client individual budgets, child care provision, Housing responsive maintenance and the Affordable Housing Strategy.</p> <p>In addition, a review of the internal audit section’s performance has been undertaken, including a critical self-assessment to determine the extent to which the Internal Audit section complies with guidance issued by CIPFA.</p>	

Specifically, the Code of Conduct for Internal Audit in Local Government (the CIPFA Code) and the CIPFA statement on The Role of The Head of Internal Audit in Public Sector Organisations. CIPFA recommends that bodies use this statement as a framework to assess compliance with good practice and report publicly on this.

It has been concluded that the City of London meets all material aspects of the CIPFA guidance, although minor updating of the internal audit section manual is required.

Review of the performance of the internal audit function has highlighted that the function needs to achieve a higher delivery of the audit plan, with 85% of the audit plan for 2012/13 being completed to draft report stage at the end of March 2013, compared to a target of 90%.

Recommendations

Members are asked to:

1. note the Head of Internal Audit Report and Opinion for 2012/13
2. note the conclusions of the review of internal audit effectiveness assessed against the CIPFA internal audit code of practice and statement on the role of the Head of Internal Audit in public sector organisations.

Main Report

Background

Introduction

1. In accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 (“the CIPFA Code”), the Head of Internal Audit must provide a written report to those charged with governance timed to support the Annual Governance Statement. The report must:
 - Include an opinion on the overall adequacy and effectiveness of the organisation’s control environment;
 - Disclose any qualifications to that opinion, together with the reasons for the qualification;
 - Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
 - Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement;

- Compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria; and
 - Comment on compliance with these standards and communicate the internal audit quality assurance programme.
2. The purpose of this report is, therefore, to provide the Head of Internal Audit's opinion on the adequacy and effectiveness of the City's control environment, in particular drawing on:
- The work which has been undertaken to arrive at my assessment;
 - The key issues arising from the audit work; and
 - The performance of the internal audit function for the period.
3. This report is supported by a summary of the work completed by the in-house internal audit team at Appendix 1, which has been reported to the Audit & Risk Management Committee over the preceding year through internal audit update reports.
4. This report has been prepared to meet the requirement to provide an annual report and opinion and has been prepared in accordance with the CIPFA Code of Practice.

Progress against the plan

5. The Internal Audit Plan for 2012/13 was approved by the Audit & Risk Management Committee on the 22nd February 2012. The internal audit section has experienced some turnover of staff during the year, with two auditors leaving, which resulted in some a loss of auditor resources whilst replacement staff were recruited The majority of the 2012/13 audit plan has been delivered and reported, and provides the basis for the 2012/13 audit opinion. The following main audit reviews which are yet to be finalised from the 2012/13 audit plan are at draft report stage:-
- Barbican Centre – Stocks and Stores
 - Chamberlain's Department – Investments – Corporate Responsibility
 - City Surveyor's Department – Refurbishment of the Traditional Crematorium
 - Community & Children's Services – Client Account Management – Appointeeships & Court of Protection
 - Corporate – Tendering and Due Diligence
 - Guildhall School of Music & Drama – Income – Including Fees System
6. The findings and recommendations arising from these audits are being agreed with management. There are no issues of significance within the findings of these reviews which would have an impact on my overall opinion.

Implementation of Recommendations

7. During the year, internal audit have undertaken a programme of internal audit follow-up reviews 6-12 months after the finalisation of audit reports, which have been reported through audit follow-up reports. At the end of May 2013, cumulative performance in the implementation of audit recommendations at the time of the formal follow-up over the last two years is as follows:-

Implementation at time of audit follow-up over last 2 years	Red	Amber	Green	Total
Recommendations Agreed	6	97	327	430
Recommendations Implemented	5	65	245	315
% implemented	83%	67%	75%	73%

8. Close monitoring of the status of red and amber priority recommendations during 2012/13, in addition to formal audit follow-ups, has continued to improve the timeliness of recommendation implementation. Where red and amber priority recommendations were still be implemented at the time of audit follow-up, further updates have been sought from management to confirm the implementation of red and amber priority recommendations. Analysis shows that 35% of amber priority recommendations are implemented more than 6 months after the originally agreed date. Targeted follow-up with Chief Officers is planned for 2013/14, to reinforce the importance of keeping to originally agreed timescales for the implementation of recommendations. At the end of May 2013 there are no outstanding red priority actions and 15 open amber priority actions from reviews previously concluded and reported to this Committee.

Annual Opinion of the Head of Internal Audit

9. As Head of Internal Audit, I am required to provide an opinion on the overall adequacy and effectiveness of the City's control environment. I have undertaken the following in order to form a basis for providing my assurance.
- Assessed the quantity and coverage of internal audit work against the 2012/13 internal audit plan, first quarter audit plan for 2013/14 and other independent assurance work, to allow a reasonable conclusion as to the adequacy and effectiveness of the City's risk management, control and governance processes.

- Reviewed the reports from the reviews undertaken during the year by internal audit and other assurance providers, which included the following:
 - 43 main internal audit reviews completed during the year;
 - 35 internal audit compliance spot checks;
 - Ofsted Inspection of Safeguarding and Looked After Children (March 2012) and Fostering Services (March 2013);
 - HMIC Police Inspection reports, Anti-Social Behaviour (June 2012), Custody (June 2012) and Integrity (September 2012)
 - External Audit - Annual Audit Letter – September 2012;
 - Considered, any significant recommendations not accepted by management and the consequent risks, of which there were none;
 - Assessed the status of recommendations identified as not implemented, as part of internal audit follow-up reviews and subsequent progress tracking;
 - Considered the effects of any significant changes in the City's objectives or systems, including the impact of the significant reduction of financial resources as a result of the economic downturn and reductions in government funding;
 - Reviewed and considered matters arising from reports to the Audit and Risk Management Committee;
 - Considered whether there were any limitations which may have been placed on the scope of internal audit.
10. Following consideration of the above I am able to provide the following Head of Internal Audit Opinion for 2012/13:-

Audit Opinion

- 11. I am satisfied that sufficient quantity and coverage of internal audit work and other independent assurance 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.
- 12. 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 these processes.
- 13. Notwithstanding my overall opinion, internal audit's work identified a number of opportunities for improving controls and procedures which management has accepted and are documented in each individual audit report. Timeliness

in the implementation of priority audit recommendations has improved during the year, although implementation according to the originally agreed timescales is often not achieved. The new Strategic Risk Management arrangements have become embedded during the year. Opportunities exist for enhancing the operation of the risk management framework across the organisation; an improvement programme is being progressed.

Matters of Emphasis

14. I have encountered no fundamental issues which would cause me to qualify my opinion or which I believe could have a material impact on the ability of the City to achieve its objectives. However, there is one area where it is felt that the City of London Corporation should focus particular attention:

Community & Children Services – Internal Audit reviews have identified some important areas where control needs to be improved in the management of client accounts, and some other areas where focused management attention is required within the Department in relation to the control of client individual budgets, child care provision, housing responsive maintenance and the Affordable Housing Strategy. Management, both within DCCS and the Chamberlain's Department, is taking appropriate action to address these issues through the implementation of the agreed recommendations.

The Head of Audit and the new Director of Community and Children Services have agreed to introduce closer audit liaison arrangements with the Department, through internal audit attending Departmental SMT meetings on a quarterly basis to review the internal audit work programme and monitor closely the implementation of audit recommendations.

Internal Audit Section compliance with relevant CIPFA Codes of Practice

15. Compliance with the CIPFA Code of Practice for Internal Audit in Local Government and CIPFA statement on the role of the Internal Auditor in Local Government has been reviewed in May 2013, through undertaking a self-evaluation.
16. The CIPFA Code of Practice recommends that the Head of Internal Audit reports directly to a member of the Leadership Team. Following review of the Head of Internal Audit reporting lines in consultation with the Audit and Risk Management Committee, the Head of Internal Audit reporting lines have been changed from September 2012, so he has a direct reporting line to the Chamberlain, with additional professional and managerial support provided by the Business Support Director.
17. The Internal Audit section complies with all aspects of the Codes, although there are a number of minor areas where the internal audit section manual needs updating to formalise existing practices. This work is underway and will be completed by the end of June 2013.
18. From the 1st April 2013, a new set of Internal Audit Standards – the Public Sector Internal Audit Standards (PSIAS) were introduced, which now provides a coherent and consistent internal audit framework for the whole of the public sector. These new standards effectively replace the CIPFA Code of Practice for Internal Audit in Local Authorities in the United Kingdom.
19. Implementation of the PSIAS for the City of London will require very few changes to existing processes, which have been based on the previous Code of Practice for Internal Audit in Local Authorities in the United Kingdom.
20. The Head of Internal Audit will be expected to report on conformance with the PSIAS in his next annual report for the year 2013/14.

21.

Internal Audit Section Performance

22. A number of Key Performance Indicators were agreed for the Internal Audit section for monitoring during the 2012/13. Performance against these indicators is set out in the table below. Where targets have not been achieved, further comments on corrective action are provided after the table.

Performance Measure	Target	2013/14 Performance	2012/13 Performance
completion of audit plan	90% of planned audits completed to draft report issued stage by end of plan review period (31st March 2013)	85% - target not achieved, although improvement from 2012/13. Delay in completion at year end due mainly due to impact of vacancy, one auditor vacancy, a higher level of investigation work and some audit reviews taking longer than their planned day allocations	80%
% recommendations accepted	target 95%	99% - target exceeded	99%
timely production of draft report	80% of draft reports issued within 4 weeks of end of fieldwork	77% - marginally below target	80%
timely agreement and issue of final report	80% of final reports (including agreed management action plan) issued within 5 weeks of issue of draft report	84% - target achieved	43%
customer satisfaction	through key question on post audit surveys – target 90%	95% - target met	100%
% of audit section staff with relevant professional	– target 75%	79% -further professional training plans in place for	73%

Performance Measure	Target	2013/14 Performance	2012/13 Performance
qualification		2013/14.	

23. **Completion of the audit plan** – lessons learnt from last year’s audit plan delivery have been identified in relation to audit work exceeding allocated budgets and revised audit plan monitoring arrangements have been introduced for 2013/14. The internal audit section is currently at full strength with no vacancies.
24. **Timely production of draft report** - performance in issuing draft reports promptly, following completion of audit fieldwork, is marginally below target. A more concise audit report format is being piloted, which will reduce the length of time taken to prepare and review draft audit reports before issue. This area will continue to be monitored closely.
25. **Timely agreement and issue of final report** - An increased emphasis on agreeing draft audit recommendations, at audit exit meetings, has been adopted during the year, to assist with the timely completion of audits. This has been successful in improving the timely agreement and issue of final report KPI, so that performance of 84% for the year exceeds the KPI target of 80% of final reports (including agreed management action plan) being issued within 5 weeks of issue of draft report.
26. **Customer satisfaction** – The last Audit and Risk Management Committee requested that use of the Customer Satisfaction KPI be reviewed. Currently, the internal audit section issues out a post-audit questionnaire (PAQ) to the relevant Chief Officer at the finalisation of each major audit review. Whilst the responses to these PAQs are nearly always positive, the response rate is relatively low. The process for sending and receiving feedback on the PAQs has been revised twice over the last two years, in order to encourage feedback. It is intended to continue issuing PAQs, recognising they do have value, but also that they have limitations in scope.
27. What PAQs do not measure is satisfaction on the overall service provided by internal audit and do not capture the views of senior or more strategic stakeholders such as Members, senior management, External Audit, the Chamberlain and Town Clerk and Chief Executive. Informal feedback from these stakeholders is provided through interaction and discussions with the Head of Audit. In addition the Audit and Risk Management Committee provided some feedback on the internal audit function through the Audit & Risk Management Committee effectiveness review, which was reported and discussed at the 5th February 2013 meeting.
28. It is intended that a structured customer feedback questionnaire is developed to be used with chief officers, on an annual basis, to obtain more strategic feedback on the satisfaction with the internal audit service. It is planned to develop and use this type of questionnaire over the Summer of 2013. It should also be noted that the new Public Sector Internal Audit standard requires the implementation of formal arrangements for the Audit and Risk Management Committee Chairman and the Town Clerk and Chief Executive

to have input to the performance appraisal of the Head of Audit and Risk Management for the 2013/14 year end.

29. Detail of the utilisation of internal audit time resource is provided in **Appendix 2**.

Development of the Internal Audit Section

30. The new audit automation software (MK) was fully embedded within the working practices of the internal audit team during the year. This tool has systemised and automated the audit review planning, working paper and audit report production process. This aspect of the software functionality has proved to be very successful, as has the recommendations tracking functionality. Further time recording and audit plan progress monitoring functionality from the system was introduced from the start of April 2012, however this proved to be less efficient than our previous Management Information system, and, as a result we have introduced revised time recording and audit plan monitoring systems from the start of 2013/14.
31. We are also planning to utilise the capability of the new audit automation software to facilitate more targeted follow-up and reporting of management progress in implementing audit recommendations during 2013/14.
32. Auditor skills and personal development is a key focus for the section. Particular attention is being given to the sharing of skills and expertise more widely within the team, particularly in specialist audit areas where succession planning is an important consideration.

Conclusion

33. Internal Audit work continues to identify improvement areas for management; however, internal audit's overall opinion on the City's internal control environment is that it remains adequate and effective. There is a high level of acceptance of internal audit recommendations, although implementation according to the originally agreed timescales is often not achieved. Several areas for improvement in the internal audit function have been identified for action over the forthcoming year. The Internal Audit section complies with all aspects of the relevant internal audit codes of practice.

Appendices

- **Appendix 1 - Audit Report Summary**
- **Appendix 2 – Audit Resource Analysis**

Background Papers:

2012/13 Internal Audit Plan

2012/13 Internal Audit update reports

Paul Nagle CPFA

Head of Audit and Risk Management

T: 020 7332 1277

E: paul.nagle@cityoflondon.gov.uk