

<b>Committee(s):</b>	<b>Date(s):</b>
Audit & Risk Management Committee	25 <sup>th</sup> June 2013
<b>Subject:</b> Internal Audit Update Report	<b>Public</b>
<b>Report of:</b> Chamberlain	<b>For Information</b>

### Summary

This report provides an update on internal audit activity since the last Audit & Risk Management Committee on the 5th March 2013

The outcomes from the 14 main audit review finalised since the last audit update report are reported and significant risk issues highlighted. One audit review, the Community and Children Services – Community Care review resulted in a ‘Red’ Limited Assurance opinion. This audit identified a number of significant weaknesses in respect of the management of client accounts. A total of 16 accounts were identified where either a credit or debit balance was held for deceased clients. In addition, accounts were not subject to regular reconciliation nor was there an adequate level of segregation. All recommendations have been agreed with management and will be subject to an early audit follow-up in July 2013. Management has responded quickly to these issues once brought to their attention

Three audit reviews resulted in Amber assurance ratings which indicate there are significant audit findings which require mitigation and focused action by management;

- Community & Children’s Services – Responsive Repairs (New Contractual Arrangements)
- Corporate Review – Governance and VFM in the application of project priorities
- Culture Heritage & Libraries – Procurement of Reprographic Equipment

The findings from these four audit reviews have been highlighted to the relevant Committee chairman.

There was a larger than anticipated carry forward of audit work from 2012/13 due to one auditor vacancy, a higher level of investigation work and some audit reviews taking longer than their planned day allocations. Additional unplanned cash checks, taking an additional 40 auditor days, have been undertaken at a number of departments in the first part of 2013/14, and investigation activity is continuing in excess of what was allowed for at audit planning stage. Whilst good progress has been made in finalising the 2012/13 audit reviews, there has been some delay in commencing work on the 2013/14 audit work programme. The one current auditor vacancy will be filled from the 17th June. The impact of the additional investigation work in the first quarter of 2013/14 is being assessed and audit plans for the remainder of the year will need to be re-prioritised in some areas. This re-planning will be reported back to the next Audit and Risk Management Committee.

## Recommendation(s)

Members are asked to note the update report.

## Main Report

### Key Audit Findings

1. Since the last update to the Audit & Risk Management Committee in March 2013, eight main audit reviews have been finalised. Two of these reviews resulted in Amber or Red assurances for which the headline issues and consideration of impact is analysed in **Table 1**. Further details of these reports are provided in **Appendix 1**.

<b>Table 1 – Key Audit Report Headlines</b>	<b>Assurance Level</b>	<b>Impact (H/M/L)</b>
<p><b>Community &amp; Children’s Services: Community Care (2 Red, 5 Amber, 6 Green)</b></p> <p><b>Materiality:</b> The Department of Community &amp; Children’s Services (DCCS) provides a wide range of social care services to ensure service users live independently for the maximum time possible. This review focused on the management of 96 client accounts and access to telephones (provided under the Chronically Sick and Disabled Persons Act 1970).</p> <p><i>A number of significant weaknesses were identified in respect of the management of client accounts; A total of 16 accounts were identified where either a credit or debit balance was held for deceased clients. In addition, accounts were not subject to regular reconciliation nor was there an adequate level of segregation.</i></p> <p><b>Management Response:</b></p> <p>A total of 15 recommendations were made, 14 of which are due for implementation by June 2013. The one remaining green recommendation will be completed by April 2014 to coincide with the end of the financial year. All recommendations have been agreed with management</p>	Red	Medium

<b>Table 1 – Key Audit Report Headlines</b>	<b>Assurance Level</b>	<b>Impact (H/M/L)</b>
and will be subject to an early follow-up in June/July 2013.		
<p><b>Community &amp; Children’s Services: Responsive Repairs (New Contractual Arrangements) (5 Amber, 5 Green)</b></p> <p><b>Materiality:</b> The review focused on the new contractual arrangements in place for the delivery of the housing responsive repairs and maintenance service. The new contract is valued at £867k per annum.</p> <p><i>Although the contractor commenced work in January 2011, a signed contract was not put in place until August 2012. Recommendations were made to improve contract monitoring, inspection arrangements and introduce additional procedures to safeguard against inefficiency and waste.</i></p> <p><b>Management Response:</b></p> <p>Management have agreed with all five amber and five green priority recommendations. Full Implementation was originally agreed for the end of April 2013, however implementation of recommendations has now been agreed for the end of June 2013.</p>	Amber	High
<p><b>Corporate Review – Governance and VFM in the application of project priorities (3 Amber, 3 Green)</b></p> <p><b>Materiality:</b> the internal audit review focused on project categories (e.g. Health &amp; Safety, Asset Enhancement, Spend to Save) attributed to projects which are subject to the City Project Management process. As the priority of these categories is relied upon by Members when deciding which projects are to be progressed, and which are not, this goes to the very heart of the City’s Governance and Value for Money arrangements.</p> <p><i>In the opinion of Internal Audit, at least seven (47%) of the projects sampled had been incorrectly allocated to categories of a higher priority than they should have been. Recommendations were made to improve guidance and strengthen the oversight and consistency in the allocation, recording and reporting of project categories.</i></p> <p><b>Management Response:</b></p> <p>Management have agreed with the three amber and three</p>	Amber	High

<b>Table 1 – Key Audit Report Headlines</b>	<b>Assurance Level</b>	<b>Impact (H/M/L)</b>
green priority recommendations. Amber priority recommendations are due for full implementation by June 2013, with all recommendations to be implemented by September 2013.		
<p><b>Culture, Heritage and Libraries – Procurement of Reprographic Equipment (2 Amber, 3 Green)</b></p> <p><b>Materiality:</b> In 2012/13, actual Department expenditure on printing, equipment purchase, maintenance and hire was £418,000. The audit investigation focused on a photocopier lease agreement allegedly entered into for a five year period costing £43,812 as well as the general Departmental controls over reprographic equipment purchasing and cost monitoring.</p> <p><i>Greater control is required by the department in the procurement of equipment and subsequent lease monitoring. In relation to the specific photocopier lease which initiated the audit review, the equipment has not been used; was never required; and the officer who signed the agreement did not have the authority to do so. The Chamberlain had advised that under the new centralised procurement arrangements being put in place, it should not now be possible for an officer to enter into a procurement of this type.</i></p> <p><b>Management Response:</b></p> <p>Two amber priority and three green priority recommendations were agreed to improve control in this area and were implemented by 31st March 2013.</p>	Amber	Low

### **Current Position**

2. In addition to highlighting the key issues arising from recent internal audit work, the 10 internal audit reviews identified in **Table 2** have been finalised and reported over the last three months with a Green Assurance rating. Audit report summaries from these reviews have recently been circulated separately to the Audit & Risk Management Committee and the Chairman and Deputy Chairman of the relevant Service Committee. The detailed full internal audit report can be provided to members of this Committee on request.

<b>Table 2 – Green Assurance Audit Reviews</b>	<b>Red recs.</b>	<b>Amber recs.</b>	<b>Green recs.</b>	<b>Total</b>
<b>Central Criminal Court</b> Income, Expenditure and Value for Money	-	-	2	2
<b>City of London Freemans School</b> Premises Related Expenditure	-	-	3	3
<b>City of London School</b> Premises Related Expenditure	-	1	6	7
<b>Barbican Centre</b> Cost Monitoring Review	-	-	3	3
<b>Barbican Centre</b> Box Office Processes	-	-	3	3
<b>Community &amp; Children’s Services</b> Housing Car Parks	-	-	5	5
<b>Community &amp; Children’s Services</b> Barbican Car Parks	-	-	6	6
<b>Community &amp; Children’s Services</b> Home Care Closure arrangements	-	-	1	1
<b>Department of Built Environment</b> Off Street Parking Income	-	-	2	2
<b>City Surveyors</b> Guildhall Expenditure	-	-	4	4

### **Audit Work Delivery**

3. Progress continues to be made on the audit reviews carried forward from the 2012/13 plan; the position as at 30<sup>th</sup> May 2013 is set out in **Table 3** below

<b>Table 3 – Carry Forward Progress</b>	Total	Not Started	Planning	Fieldwork	Draft Report	Final/ Complete	% completion
Full Reviews	41	4	3	16	8	7	37%
Spot Check / Mini-reviews	9	2	2	3	1	1	22%
<b>Total</b>	50	6	5	19	9	8	34%*

Note 1 - Percentage completed includes reports at draft stage as per KPI1

4. Work delivery of the 2013/14 plan as at 30th May 2013 is set out in **Table 4** below.

<b>Table 4* – Audit Plan Progress</b>	Current Plan	Not Started	Planning	Fieldwork	Draft Report	Final/ Complete	% completion
Full Reviews	68	64	1	2	1	0	1%
Spot Check / Mini-reviews	75	65	1	1	0	8	11%
Irregularity investigations	3	2	0	1	0	0	0%
A&I / support reviews	3	1	0	2	0	0	0%
<b>Total</b>	<b>149</b>	<b>132</b>	<b>2</b>	<b>6</b>	<b>1</b>	<b>8</b>	<b>6%**</b>

Note 1 - Table 4 excludes audit reviews carried forward from the 2012/13 audit plan

Note 2 - Percentage completed includes reports at draft stage as per KPI1

5. Since the 2013/14 audit plan was agreed at the 5<sup>th</sup> February 2013 Audit & Risk Management Committee, there have been a number of changes which have been agreed with management. The reasons for changes since the plan was agreed are detailed in **Appendix 2**.
6. There was a larger than anticipated carry forward of audit work from 2012/13 due to one audit vacancy, a higher level of investigation work and some audit reviews taking longer than their planned day allocations. Additional unplanned cash checks taking an additional 40 days have been undertaken at a number of departments in the first part of 2013/14, and significant investigation activity is continuing in excess of what was allowed for at audit planning stage. Whilst good progress has been made in finalising the 2012/13 audit reviews, there has been some delay in commencing work on the 2013/14 audit work programme. The one current vacancy will be filled from the 17<sup>th</sup> June with the appointment of an audit apprentice.
7. The impact of the additional investigation work in the first quarter of 2013/14 is being assessed and audit plans for the remainder of the year will need to be re-prioritised in some areas. This re-planning will be reported back to the next Audit and Risk Management Committee.
8. The following main reviews are at draft reporting stage and will be reported to the Committee by the end of July 2013. :

<b>Department</b>	<b>Review</b>
Corporate	Tendering and Due Diligence
Chamberlains Department	Investments
City Surveyors	Refurbishment of the Traditional Crematorium

Barbican Centre	Stocks and Stores
Department of Built Environment	On-Street Parking
Open Spaces	Income Checks
Community & Children's Services	Client Account Management – Appointeeships and Court of Protection Cases
Guildhall School of Music & Drama	Income – Including Fees System

9. Details of main audit reviews planned for the next quarter (June 2013 to September 2013) are provided in **Appendix 3**.
10. Analysis of audit days delivered for the 2013/14 planning period is provided in **Appendix 4**. The higher allocation of time to staff monitoring in the first 6 week period has been caused by the year end staff appraisal process. This area is being closely monitored.

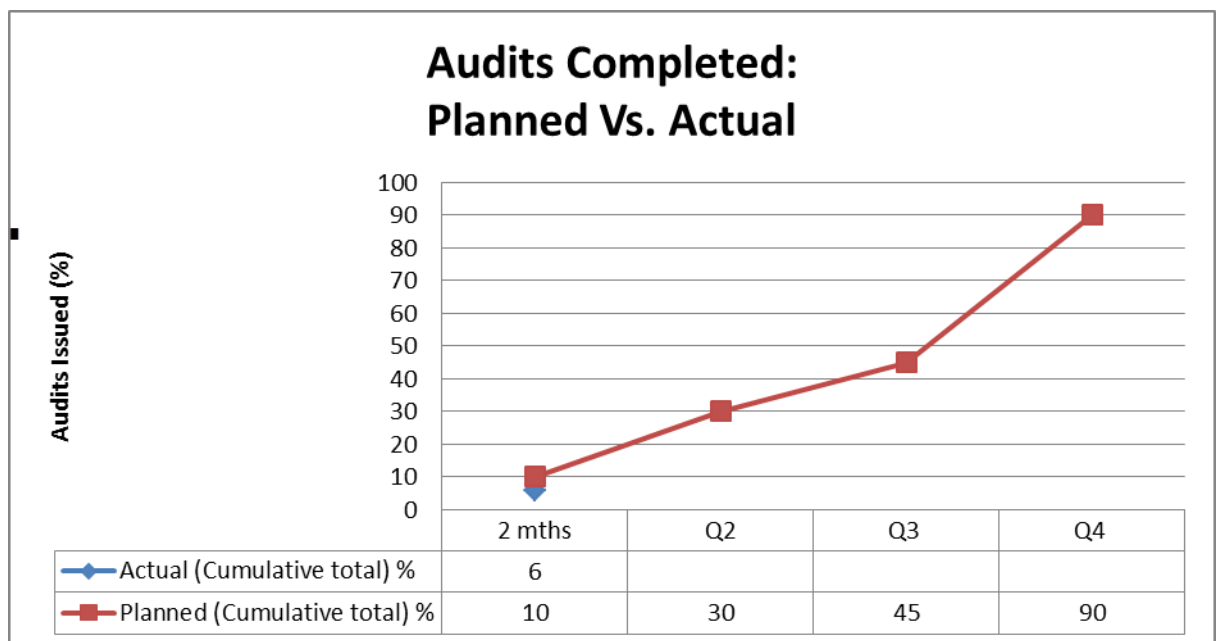
#### Internal Audit Section Performance

11. The following Key Performance Indicators are used for monitoring the Internal Audit section. 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	May 13	Feb 13
Completion of audit plan	90% of planned audits completed to draft report stage by end of plan review period (31 <sup>st</sup> March 2014)	6% completed as of May 2013 – see comments below	☹	☹
% recommendations confirmed fully implemented at time of formal follow-up	Overall – 75% Red – 100% Amber – 80% Green – 70%	Overall – 65% Red – 100% Amber – 67% Green – 64%	☹	☹
Timely production of draft report	80% of draft reports issued within 4 weeks of end of fieldwork	On target – 80% as of May 2013	☺	☹
Timely agreement and issue of final report	80% of final reports (including agreed	Above target – 100% as of May 2013	☺	☺

Performance Measure	Target	2013/14 Performance	May 13	Feb 13
	management action plan) issued within 5 weeks of issue of draft report			
Customer satisfaction	Through key question on post audit surveys – target 90%	None returned in first 6 weeks	n/a	☺
% of audit section staff with relevant professional qualification	- target 75%	79%	☺	☺

12. **Completion of audit plan** – A graph is provided below to show delivery of the internal audit plan against the assumed profile of completion anticipated at the start of year. Performance completion of the 2013/14 audit plan was at 6% (at 30th May 2013) which is less than the projected 10% position for this time of year.



13. The main reason for this is additional cash checks being undertaken in a number of departments, and additional investigation activity being undertaken by the internal audit team at the request of the Chamberlain. A report on this investigation activity is provided separately on the agenda. In addition, there has been a small reduction in audit resource availability due to the section



having one vacancy. This vacancy will be filled from the 17<sup>th</sup> June with the appointment of an audit apprentice. A larger than anticipated carry forward of audit work from 2012/13 has also had an impact.

14. **Implementation of Recommendations** – Overall implementation of audit recommendations as measured by formal follow-up reviews undertaken over the last year is currently at 65%. Further analysis of performance in this area is provided in the separate audit recommendations follow-up report.
15. **Timely production of draft report** – performance in issuing draft reports within four weeks of end of fieldwork is on target at 80%; an improvement on the performance reported in March 2013.
16. **Timely agreement and issue of final report** – performance in finalising Internal Audit work now exceeds the 80% target and is at 100%. An increased emphasis on agreeing draft audit recommendations at audit exit meetings has been adopted to assist with the timely completion of audits.
17. The timely reporting and agreement of audit reports are areas where the Committee has commented on the need to improve performance previously.
18. Details of the utilisation of internal audit resource is provided in **Appendix 4**.

## **Conclusion**

19. Internal audit's opinion on the City's overall internal control environment is that it remains adequate and effective. Some areas of control, however do need focused improvement by management, as identified in the red and amber assurance audit reports. As a result of additional investigation work, some areas of the audit plan will need to be re-prioritised.

## **Appendices**

- Appendix 1 – Audit Report Summaries
- Appendix 2 – 2013/14 Audit Plan Changes
- Appendix 3 – Next Quarter internal audit planned reviews
- Appendix 4 – Audit Resource Analysis

## **Background Papers:**

2013/14 Internal Audit Plan

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