

<b>Committee:</b>	<b>Date:</b>
Audit & Risk Management Committee	17 <sup>th</sup> September 2013
<b>Subject:</b>	<b>Public</b>
Internal Audit Update Report	
<b>Report of:</b>	<b>For Information</b>
Chamberlain	

### Summary

This report provides an update on internal audit activity since the last Audit & Risk Management Committee on the 25<sup>th</sup> June 2013.

The outcomes from the eight main audit reviews finalised since the last audit update report are reported and significant risk issues highlighted. The Client Account Management -Appointeeships and Court of Protection Cases resulted in a Red Limited assurance opinion. This review was undertaken at the request of DCCS Management, following the significant control weaknesses identified in the management of client accounts which was reported to the June Committee. The audit review found that the City is failing to meet its obligations as both an appointee and deputy, on a number of cases due in part to the control weaknesses identified previously. Management have responded quickly to the significant issues raised by this audit review and have reported that all three Red and fourteen of the fifteen Amber priority recommendations have been implemented. Internal audit is undertaking a formal follow-up on both these areas in September 2013 to confirm implementation.

One audit review resulted in Amber assurance rating, which indicates there are significant audit findings which require mitigation and focused action by management - City Surveyors: Refurbishment of Traditional Crematorium.

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 40 auditor days, have been undertaken, and significant investigation activity is continuing with 219 days spent on this activity so far, compared to an estimated annual allocation of 239 days. Whilst good progress has been made in finalising the 2012/13 audit reviews, there is still some work to complete. The impact of the additional work in the first part of 2013/14 has been assessed and audit plans for the remainder of the year have been re-prioritised. Five larger audit reviews have been added to the audit plan for the current year, with nine lower priority reviews either cancelled or deferred from the current year's audit plan. Details of the changes are set out in Appendix 2. Additional interim senior auditor resource is being secured to maintain planned audit coverage whilst recruitment takes place.

Performance in the timely reporting and finalisation of audit reviews has dropped below target levels. This reduction in performance is being addressed through close monitoring and the introduction of a more exception-based audit report format which will require less time to write and agree with management.

**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 June 2013, eight main audit reviews have been finalised. Two of these reviews resulted in Amber 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**.

<p><b>Table 1 – Key Audit Report Headlines</b> <b>(details of recommendations in brackets)</b></p>
<p><b>Community and Children’s Services: Client Account Management - Appointeeships and Court of Protection Cases (3 Red, 15 Amber,10 Green)</b></p> <p><b>Assurance Level : RED    Impact : Medium</b></p> <p><b>Materiality:</b> Whilst the number of clients subject to Appointeeships and Court of Protection cases is very low (twelve clients at time of fieldwork), the Corporation of London has a considerable position of trust and accountability in managing the financial affairs of these vulnerable individuals.</p> <p><i>DCCS Management requested internal audit to undertake this review, following the significant control weaknesses being identified in the management of client accounts which were reported to the June Committee. Only limited assurance was provided concerning the management of appointeeships and deputyships, owing in part to control weaknesses in client account management already reported.</i></p> <p><i>In the absence of adequate supporting guidance and full understanding of requirements, this review found that the City is failing to meet its obligations as both an appointee and as a deputy on a number of cases. This poses the risk of increased OPG (Office of the Public Guardian) regulation or revocation of Deputyships and fraudulent activity not being identified.</i></p>

**Table 1 – Key Audit Report Headlines**  
**(details of recommendations in brackets)**

**Management Response:**

Management has responded quickly to the significant issues raised by this audit review. . All of the red recommendations have been implemented. Of the fifteen amber recommendations, fourteen have been fully implemented; the one outstanding recommendation has been partly implemented with the remainder due by November 2013. Eight of the ten ‘green’ recommendations have already been implemented; the remaining will be progressed and completed by the end of September 2013. Internal audit is undertaking a formal follow-up on the Client Accounts: Social Care audit and this Appointeeships and Court of Protection Cases audit in September 2013 to confirm implementation.

**City Surveyors: Refurbishment of Traditional Crematorium (4 Amber, 1 Green)**

**Assurance Level : AMBER    Impact : Medium**

**Materiality:** The contract sum for the refurbishment work was £1,091,354 and the term for the works was 34 weeks. This contract project audit was used to draw out wider recommendations relating the City’s Project Monitoring arrangements.

*The review concluded that the procurement practices exercised on this project were in accordance with the City’s guidance. Some weaknesses were noted in respect of compliance with Financial Regulation 13.4 which requires the provision of detailed information to support monthly valuations. Also Project Vision, the Corporate Project Monitoring system for projects in excess of £50,000, was not being updated in a timely manner, nor was it being sufficiently used to store project documentation. As a result, the project monitoring process was found to be overly reliant upon the verbal updating of Senior Staff in the provision of cost and time information to Members.*

**Management Response:** A management action plan to implement all recommendations was agreed in June 2013. Management has confirmed that all actions are now completed.

**Current Position**

2. In addition to highlighting these key issues arising from recent internal audit work, the six 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 will be circulated separately to the Audit & Risk Management Committee and the Chairman and Deputy Chairman of the relevant Service Committee prior to the meeting. The detailed full internal audit report can be provided to members of this Committee on request.

<b>Table 2</b> <b>Green Assurance Audit Reviews</b>	<b>Red recs.</b>	<b>Amber recs.</b>	<b>Green recs.</b>	<b>Total</b>
<b>Barbican Centre</b> ICT Review	-	3	3	6
<b>Barbican Centre</b> Stocks and Stores	-	-	17	17
<b>Department of the Built Environment</b> On-Street Parking Income	-	-	2	2
<b>Open Spaces</b> Income Checks	-	-	13	13
<b>Corporate</b> Tendering and Due Diligence	-	4	5	9
<b>Guildhall School of Music and Drama</b> Income – including fees system	-	1	8	9

### Audit Work Delivery

3. Progress continues to be made on the audit reviews carried forward from the 2012/13 plan; the position, as at the end of August 2013, is set out in **Table 3** below.

<b>Table 3</b> <b>Carry Forward Progress</b>	Total	Not Started	Planning	Fieldwork	Draft Report	Final/ Complete	% completion
Full Reviews	34	1	2	9	5	17	65%
Spot Check / Mini-reviews	9	0	1	2	0	4	44%
<b>Total</b>	43	1	3	11	5	21	60%

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

4. Work delivery of the 2013/14 plan, as at August 2013, is set out in **Table 4** below.

<b>Table 4</b> <b>Audit Plan Progress</b>	Current Plan	Not Started	Planning	Fieldwork	Draft Report	Final/ Complete	% completion
Full Reviews	57	44	7	4	0	1	2%
Spot Check / Mini-reviews	59	31	3	8	1	14	25%
Irregularity investigations	3	1	0	1	0	0	0%

A&I / support reviews	3	1	0	0	0	0	0%
<b>Total</b>	<b>122</b>	<b>77</b>	<b>10</b>	<b>13</b>	<b>1</b>	<b>15</b>	<b>13%</b>

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. Five larger audit reviews have been added to the audit plan for the current year, with nine lower priority reviews either cancelled or deferred from the current year's audit plan.

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**Main Audit Reviews added to 2013/14 Audit Work Programme**

<b>Department</b>	<b>Review</b>
Various	Banking and Income spot checks
City Police	Project Office
City Surveyors	Investment Properties, settlement of claims
Department of Community and Children Services	Appointeeships & Court of Protection Cases
City Surveyor's Department, and others	Building Project Final Accounts Verification

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**Main Audit Reviews removed from 2013/14 Audit Work Programme**

<b>Department</b>	<b>Review</b>
Barbican Centre	Value Framework (Techniques and scoring)
Built Environment	TFL Local Implementation Plan
Chamberlain's	Business Rates - Hosted
Open Spaces	Procurement & VFM
Town Clerks	Central Criminal Court – Premises Expenditure/Facilities Management
Open Spaces	Volunteer Recruiting & Vetting
Barbican Centre	Project/Contract Audit – Interim Valuations
Corporate	Contract Capital Project No1
Town Clerks	Website Strategy, Security and Operation.

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6. The reasons for changes since the plan was agreed are detailed in **Appendix 2**. Audit plan changes have been agreed over the last three months, as a result of audit planning meetings with senior management and re-assessment of audit priorities, resources and suitable timing of audit work.
7. The following main reviews are at draft reporting stage and will be reported to the Committee shortly:

<b>Department</b>	<b>Review</b>
Community and Children Services	Financial Management
Corporate	Spreadsheet usage and control
Open Spaces	Fleet Management
Chamberlains Department	Investments
City Surveyor's Department	Building Repairs and Maintenance

8. Details of main audit reviews planned for the next quarter (October 2013 to December 2013) can be provided to Members on request.

### **Internal Audit Section Performance**

9. A review of the performance of the internal audit function is provided in Appendix 3. Analysis of audit days delivered for the 2013/14 planning period is provided in **Appendix 3**.
10. In summary, the performance levels are similar to the last report. There has been a slight deterioration in two areas relating to the timely production of draft reports and issue of final reports. Whilst performance had improved in this area during 2012/13, maintaining a consistent level of performance has not been achieved and, therefore, will require further focus. The internal audit section is currently introducing an updated internal audit reporting format. This shorter, exception style of reporting will enable draft audit reports to be produced and agreed with management more quickly.

### **Development of the Internal Audit Section**

11. Revised time recording and audit plan monitoring systems were introduced from the start of 2013/14. These have addressed the deficiencies with the time recording and monitoring functionality experienced last year with the MK audit automation software.
12. The internal audit procedures manual has now been updated for the introduction of the new Public Sector Internal Audit Standards. A review of internal audit satisfaction with Chief Officers was also completed in the Summer. A separate report on this review is also on this Committee agenda.

13. There was one senior auditor resignation in August, which will result in a vacancy from the 9<sup>th</sup> September. An external recruitment exercise has been initiated, which will seek to fill this vacancy and an additional senior auditor vacancy that is anticipated due to retirement over the next few months.

## **Conclusion**

14. Internal audit's opinion on the City's overall internal control environment is that it remains adequate and effective. Some areas of control 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 have been re-prioritised and additional interim auditor resource is being secured to maintain planned audit coverage.

## **Appendices**

- Appendix 1 – Audit Report Summaries
- Appendix 2 – 2013/14 Audit Plan Changes
- Appendix 3 – Review of Internal Audit Performance
- Appendix 4 – Audit Resource Analysis

## **Background Papers:**

2013/14 Internal Audit Plan

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