

Committee:	Date:
Audit and Risk Management Committee	11 th December 2013
Subject:	Public
Internal Audit Update Report	
Report of:	For Information
Chamberlain	

Summary

This report provides an update on internal audit activity since the last Audit & Risk Management Committee on the 17th September 2013. It sets out the independent opinion of the Head of Internal Audit in relation to the adequacy and effectiveness of the control environment for those areas of internal audit work concluded since the last update report to Committee.

The outcomes from the five main audit reviews finalised since the last update are reported and significant risk issues highlighted. Two audit reviews resulted in Amber assurance ratings, which indicates there are significant audit findings which require mitigation and focused action by management.

Buildings Repairs and Maintenance Review – Amber Assurance

The Building Repairs and Maintenance review found the systems and controls in place in relation to the operation of the Mitie contract to be satisfactory and working in practice. It was noted that the contractor had failed to meet the target for completion of works within agreed timescales in each of the first 12 months of the contract, but an upward trend in performance was noted to a performance level of 91% by period 12 (June 2013) being close to the contracted target of 96% of jobs completed according to the job priority timescales. The City Surveyor has subsequently reported to internal audit that performance against this KPI (Key Performance Indicator) has shown further improvement and has now passed this requirement as from October 2013.

Further areas identified for improvement included the accuracy of management information and the way in which internal post completion inspections of Mitie's work are undertaken.

Chamberlain's Department: IS/IT Back-up arrangements – Amber Assurance

Internal Audit provided moderate assurance on the data backups performed by the IS division. Improvements were recommended in a number of priority areas to improve procedural documentation, widen the scope of the change control processes and improve the successful completion of back-ups. Since issuing the Final Audit Report, the current assurance rating can now be considered as substantial assurance (Green) as a result of sufficient progress being made in addressing change control and improving the successful completion of back-ups now operated by Agilisys.

Internal Audit Function Performance

Performance levels in implementing audit recommendations, assessed by formal follow-up reviews, have improved. There has been some improvement in two areas relating to the timely production of draft reports and issue of final reports, although the issuing of final report on a timely basis still requires some attention. Completion of the 2013/14 audit plan is still behind target. The City of London, Internal Audit Section is due to be reviewed externally by a London Borough (Peer Review) in the first quarter of 2014. This assessment will review the internal audit functions compliance with the new Public Sector Internal Audit Standards, with the outcome planned to be reported to the May Committee.

Internal Audit Resources

Additional interim resources (2 senior auditors) have been obtained to enable delivery of the audit plan to be accelerated in the last 4 months of the year. Permanent replacements for two senior auditors who have left the section in the last two months, have been recruited and are expected to commence work early in the New Year.

Recommendation

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 September 2013, five 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**.

Table 1 – Key Audit Report Headlines

(details of recommendations in brackets)

City Surveyor's Department: Building and Repairs Maintenance (5 Amber, 4 Green)

Assurance Level : Amber, Impact : High

Materiality: corporate wide Building Repairs and Maintenance Contract which applies to all operational and investment properties, with an annual spend of £5m.

Key findings:

Overall, this review found the systems and controls in place in relation to the operation of the Building Repairs and Maintenance contract with Mitie, to be satisfactory and working in practice. It was noted that the contractor had failed to meet the target for completion of works within agreed timescales in each of the first 12 months of the contract, but an upward

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trend in performance was noted to a performance level of 91% by period 12 (June 2013) being close to the contracted target of 96% of jobs completed according to the job priority timescales. The City Surveyor has subsequently reported to internal audit that performance against this KPI (Key Performance Indicator) has shown further improvement and has now passed this requirement as from October 2013.

Further areas identified for improvement included the accuracy of management information and the way in which internal post completion inspections of Mitie’s work are undertaken.

Management Response: All recommendations from this review have been agreed for implementation by February 2014.

Chamberlain’s Department: IS/IT Back-up arrangements (4 Amber, 1 Green)

Assurance Level : AMBER Impact : High

Materiality: IS Division and now Agilisys back-up the majority of City of London IS/IT systems to enable restoration of data should there be corruption or loss of data. Some City of London Institutional Departments have separate ICT arrangements.

Key Findings.

Internal Audit provided moderate assurance on the data backups as performed by the IS division. Improvements were recommended in a number of priority areas to improve procedural documentation, widen the scope of the change control processes and improve the successful completion of back-ups. Since issuing the Final Audit Report, the current assurance rating can now be considered substantial assurance ‘Green’ as a result of sufficient progress being made in addressing change control and improving the successful completion of back-ups now operated by Agilisys.

Management Response:

All recommendations from this review have agreed dates for implementation by February 2014 or earlier.

Current Position

2. In addition to highlighting these key issues arising from recent internal audit work, the three 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.

Table 2 Green Assurance Audit Reviews	Red recs.	Amber recs.	Green recs.	Total
Chamberlains Department				
Treasury Management	-	-	4	4
PP2P savings verification	-	-	-	-
Department of Community and Children Services				
Financial Management	-	1	10	11

3. Internal audit work is conducted and reported in accordance with the Public Sector Internal Audit Standards with no impairment to independence or objectivity.

Audit Work Delivery

4. Work delivery of the 2013/14 plan, as at November 2013, is set out in **Table 3** below.

Table 3 – Audit Plan Progress	Current Plan	Not Started	Planning	Fieldwork	Draft Report	Final / Complete	% Completion
Full Reviews	99	38	9	19	6	27	33%
Spot checks & Mini Assurance Reviews	82	43	3	3	3	30	40%
Irregularity Investigations	3	2	0	1		0	0%
A&I/support reviews	3	0	0	2	0	1	33%
TOTAL	187	83	12	25	9	58	36%

5. Since the 2013/14 audit plan was agreed at the 5th February 2013 Audit and Risk Management Committee, there have been a number of changes which have been agreed with management. Since the last update report to Committee one audit review has been added to the audit plan for the current year, with three lower priority reviews deferred from the current year's audit plan due to the on-going impact on resources of investigation work.

Main Audit Reviews added to 2013/14 Audit Work Programme

Department

Review

Chamberlain's Department:

Business Rates – ICT Hosting

Main Audit Reviews removed from 2013/14 Audit Work Programme

Department	Review
Chamberlain's Department	Pensions : Corporate Responsibility
Open Spaces	Statutory obligations – Cemetery and Crematorium
Town Clerk's Department	Performance Development Framework

6. The reasons for changes since the plan was agreed are detailed in **Appendix 2**. This appendix sets out all Audit plan changes that have been made since the 2013/14 audit plan was agreed as a result of audit planning meetings with senior management and re-assessment of audit priorities, resources and suitable timing of audit work. Changes over the last 3 months are highlighted in bold within the Appendix.
7. The following main reviews are at draft reporting stage and will be reported to the Committee shortly:

Department	Review
Open Spaces	Fleet Management
Barbican Centre	Business Continuity Planning
Corporate Wide	Contractor Final Account Verification
City of London Police	City First Project
City Surveyors	Recoverable Works – Investment Properties

8. Details of main audit reviews planned for the next quarter (January 2014 to March 2014) 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 4**.
10. In summary, the performance level in implementing audit recommendations as assessed by formal follow-up reviews has improved. There has been some improvement in two areas relating to the timely production of draft reports and issue of final reports, although the issuing of final reports on a timely basis still requires some attention. Completion of the 2013/14 audit plan is still behind expected completion rates. Additional interim resources (2 senior auditors) have been obtained to enable delivery of the audit plan to be accelerated in the last 4 months of the year. Permanent replacements for two senior auditors, who have left the section in the last 2 months, have been recruited and are expected to commence work early in the New Year.

Development of the Internal Audit Section

11. The Audit Section is due to be reviewed by a London Borough in the first quarter of 2014 as part of the peer review scheme across London. This assessment will review the internal audit functions compliance with the new Public Sector Internal Audit Standards, with the outcome planned to be reported to the May Committee.
12. One senior auditor left the section in early September and another senior retired at the beginning of November. An external recruitment exercise has successfully identified two good candidates who are expected to join the section early in the New Year once work references are cleared and notice periods worked.

Conclusion

13. 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 amber assurance audit reports. As a result of additional investigation work, some areas of the audit plan have been re-prioritised or re-scheduled, with additional interim auditor resource now secured to maintain adequate 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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