

Committee:	Date:
Audit and Risk Management Committee	13 th May 2014
Subject: Internal Audit Update Report	Public
Report of: Chamberlain	For Information

Summary

This report provides an update on internal audit activity since the last Audit & Risk Management Committee. 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 eight main audit reviews finalised since the last update are reported and significant risk issues highlighted. Three audit reviews resulted in Amber assurance ratings, which indicate there are significant audit findings which require mitigation and focused action by management.

Corporate – Compliance with corporate management procedures: The review identified that there is scope to improve the monthly review and updating of the corporate project management system, Project Vision by some departments and more generally how project risks are identified, recorded and analysed. In addition the audit identified that one department (Guildhall School of Music and Drama) where Pro-Contract is not being used in the procurement of major contracts.

City Surveyors and Built Environment – Final Account Verification: The audit identified that final accounts are not routinely being submitted to the Chamberlain's departments for verification, on a timely basis.

Barbican Centre – Project variation order and change control: In respect of the documentation of contract variations on individual projects, a number of areas for improvement were identified which will reduce the risk that inaccuracies in interim valuations / final accounts go undetected. In addition, the precise basis for the pricing of variations was not always clear and the Barbican Centre's cost monitoring guidance could be improved.

Completion of the 2013/14 internal audit plan to at least draft report stage is at 79% with many audit reviews currently at draft reporting stage. Sufficient audit work has been undertaken to inform the Head of Audit opinion for 2013/14 for which there is a separate report on the Committee agenda.

A senior auditor has recently resigned, and a recruitment exercise is underway to replace this role. The two interim senior auditors are being retained, whilst the carry forward work from 2013/14 is completed and the recent vacancy is recruited to.

Recommendation

Members are asked to note the update report.

Main Report

Current Position

1. Since the last update to the Audit & Risk Management Committee in March 2014, eight main audit reviews have been finalised. Three 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)
--

Corporate – Compliance with corporate project management procedures – Amber (3 Amber, 1 Green)

Assurance Level : Amber, Impact : High

Materiality: The City of London's capital budget for 2014/15 amounts to approximately £45m with an additional £8m expected to be incurred on supplementary revenue projects. The City's Corporate Project Management Procedures are in place to ensure that capital and supplementary revenue projects are delivered efficiently, effectively and economically.

Key findings:

There is scope to improve the monthly review and updating of the corporate project management system, Project Vision. A review of project risk information held on project vision indicated there is room for improvement in terms of how project risks are identified, recorded and analysed. The Corporate Pro-contract system is generally being used to procure works, supplies and services contracts in respect of the City projects. However, the audit identified that one department (Guildhall School of Music and Drama) where Pro-Contract is not being used in the procurement of major contracts.

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

City Surveyor's and Built Environment – Final account verification - Amber (2 Amber)

Assurance Level : AMBER Impact : High

Materiality: The City of London's capital budget for 2014/15 amounts to approximately £45m with an additional £8m expected to be incurred on supplementary revenue projects. A significant element of spend on these projects requires payments to construction contractors.

Key Findings:

The audit identified that final accounts are **not** routinely being submitted to the Chamberlain's departments for verification, on a timely basis; a significant

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

number of projects out of those sampled (16 out of 19 projects) were identified where final account verifications by the Chamberlain's Department had not been completed. While all final accounts were historically verified by the technical department responsible for the project, verification by the Chamberlain's department provides an independent control over those projects which represent the higher cost and risk to the City.

Management Response:

The responsibility for implementing these recommendations is shared between the Corporate Programme Manager and Heads of Projects (or equivalent) across the organisation. Both recommendations are planned to be implemented by June 2014.

Barbican Centre – Project variation order and change control – Amber Assurance (3 Amber recommendations)

Assurance Level : Amber, Impact : Medium

Materiality: The Barbican Centre's capital and supplementary revenue project budget for 2014/15 amounts to approximately £2.3m, to be funded from City Fund. Adequate arrangements in relation contract variation orders helps to keep project costs under control.
--

Key findings:

Internal Audit recommended a further area for inclusion within the Barbican Centre's cost monitoring guidance to set out the requirement that significant project changes (whether resulting in additional or omitted work) should be subject to approval by Members prior to the corresponding variation order being issued to the contractor, as per the City's project procedure.
--

In respect of the documentation of contract variations on individual projects, a number of areas for improvement were identified which will reduce the risk that inaccuracies in interim valuations / final accounts go undetected. In addition, the precise basis for the pricing of variations was not always clear.
--

Management Response: All recommendations made in this review have all been agreed for implementation by the end of May 2014.

Current Position

2. In addition to highlighting these key issues arising from recent internal audit work, the five internal audit reviews identified in **Table 2** have been finalised and reported over the last two 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	Red	Amber	Green	Total
Green Assurance Audit Reviews	recs.	recs.	recs.	
Chamberlain's Department:				
Business Rates and Council Tax System Hosting	-	-	-	-
Chamberlain's Department:				
Use of Spreadsheets	-	-	1	1
Chamberlain's Department:				
Chamberlain's Court Income	-	-	4	4
City Surveyor's Department:				
Asset Disposals and Capital Receipts	-	-	4	4
City of London Freeman's School:				
Teaching and Non-Teaching Staff Recruitment (incl. Temp Staff)	-	-	1	1

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

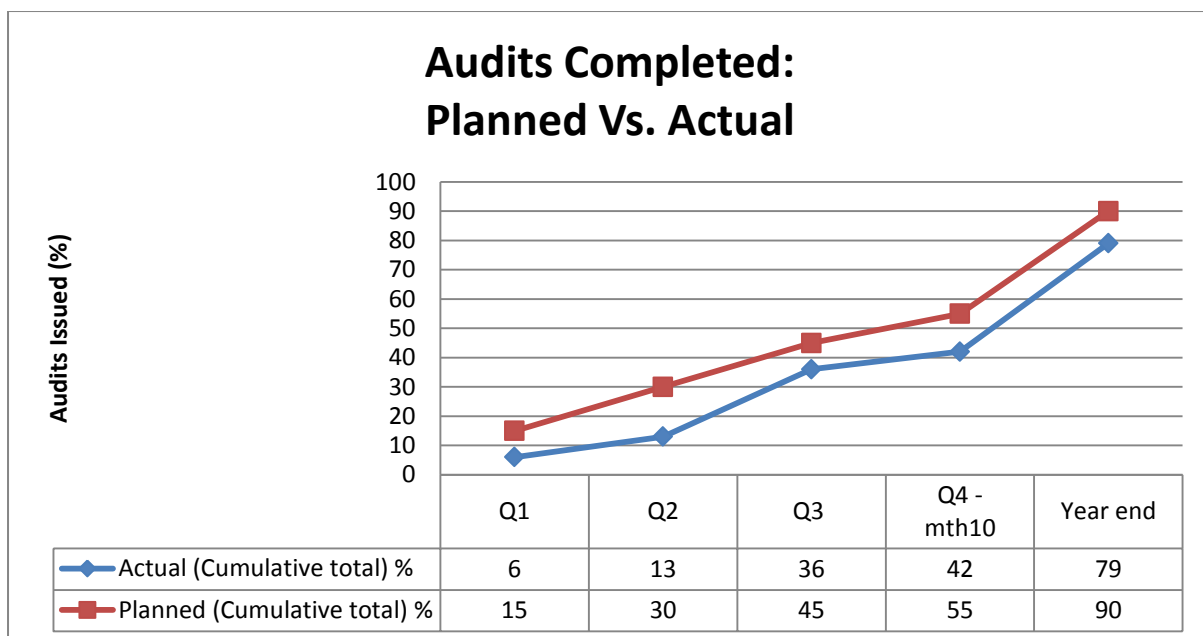
Audit Work Delivery

4. Delivery of the 2013/14 plan, as at the end of April 2014, is set out in **Table 3** below.

Table 3 - Committee Report - End of Year-

	Current Plan	Planning	Fieldwork	Draft Report	Final / Complete	% Complete
Full Reviews	80	7	12	20	41	76%
Spot checks & Mini Assurance Reviews	61	6	7	11	37	79%
Irregularity Investigations	5	0	0	0	4	80%
A&I/support reviews	8	0	0	0	8	100%
TOTAL	154	13	19	31	90	79%
KPI 1 (% completed)	79%					

5. **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 73% at the end of March 2014 and is now 79% at the end of April 2014.



6. During the 2013/14 year there was a small reduction in audit resource availability because of a vacancy from the 1st April until the 17th June which has been filled with an audit apprentice. 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 were undertaken during the summer of 2013, and significant investigation activity has continued during the whole year. In addition two senior auditor vacancies arose during the Autumn 2013.
7. Two permanent senior auditors commenced work at the beginning of January 2014 which has brought the internal audit section to a full complement of staff.
8. A senior auditor has recently resigned, and a recruitment exercise underway to replace this role, which will become vacant from the 5th May 2014. The two interim senior auditors, who were recruited and in place from the beginning of December 2013 are being retained, whilst the carry forward work from 2013/14 is completed and the recent vacancy is recruited to.
9. The following main reviews are at draft reporting stage, with findings reported to management and will be reported to the Committee shortly:

Department	Review
Police	Third Party Payments
Directorate for Built Environment:	Project Variations and Change Control
Mansion House:	Income
Open Spaces	Cemetery and Crematorium ICT Review
Comptroller & City Solicitor	Legal Consultation

Markets and Consumer Protection:	Market Lease Due Diligence
Remembrancer's Department:	Functions and Guildhall Lettings
Chamberlain's Department	Central Payroll
Community and Children Services:	Public Health Contracts
Guildhall School of Music and Drama: Professor Contracts	Teaching and Non-Teaching Staff Recruitment (incl. Temp staff)
Culture, Heritage and Libraries	London Metropolitan Archives
Public Relations Office	Communications Strategy
City of London School for Girls	Teaching and Non-Teaching Staff Recruitment (incl. Temp Staff)

10. Details of main audit reviews planned for the next quarter (April 2014 to June 2014) can be provided to Members on request.

Internal Audit Section Performance and Development

11. A review of the performance and development of the internal audit function is provided in the Head of Audit Annual Report and Opinion which is a separate report on the Committee agenda.

Conclusion

12. 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, particularly in the area of projects, as identified within the three amber assurance audit reports.
13. The internal audit section is at full complement, with additional resources in place to ensure adequate internal audit coverage is maintained.

Appendices

- Appendix 1 – Amber Assurance Report Summaries

Background Papers:

2013/14 Internal Audit Plan

Paul Nagle

Head of Audit & Risk Management

T: 020 7332 1277

E: Paul.Nagle@cityoflondon.gov.uk