

Committee(s):	Date(s):
Audit and Risk Management Committee	13 th May 2014
Subject: Head of Internal Audit Opinion and Annual Report	Public
Report of: Head of Internal Audit	For Information

Summary

Within the City of London Corporation, the Internal Audit Function is located within the Chamberlain's Department. The Public Sector Internal Audit Standards require the Head of Internal Audit to deliver an annual internal audit opinion and report that can be used by the City of London Corporation to inform its Annual Governance Statement.

The Head of Internal Audit's independent opinion is as follows:-

"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.

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.

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 further improved during the year.

One area of emphasis is highlighted in the internal audit opinion relating to controls operating over project management processes. Whilst the design of these systems is adequate, focused management attention is required in relation to compliance with the control framework, particularly in relation to checking of contractor final accounts and the timely updating of the corporate project monitoring system with risk and progress updates.

In my previous annual opinion, one area of emphasis I highlighted related to controls operating in relation to the control of social care client individual budgets. Similar significant issues relating to the financial control of social care Appointeeships and Deputyships were highlighted

during the year. Audit follow-up work in both these areas has confirmed the implementation of all recommendations.

Sufficient audit work completed in previous years, the completion of the full follow-up programme on audit recommendations, and the relatively high level of internal audit resourcing enables me to be satisfied that sufficient audit work has been undertaken to allow me to draw a reasonable audit opinion.

The annual review of the performance and effectiveness of the internal audit section is set out at **Appendix 2**. The Internal Audit Section operates under the requirements of the Public Sector Internal Audit Standards (PSIAS) which came into effect on 1st April 2013, replacing the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (CIPFA Code). The City of London, internal audit function was peer reviewed by the Head of Governance, from the London Borough of Croydon in February 2014 and assessed as generally conforming to the new standard. A number of minor observations were made, which will be acted upon to demonstrate full conformance to the new standard in 2014/15.

In addition to the peer review, review of the performance of the internal audit function has highlighted that due to a number of factors, especially a much higher level of investigation work, 79% of the audit plan for 2013/14 has been completed to draft report stage at year end, compared to a target of 90%.

Recommendations

Members are asked to:

1. note the Head of Internal Audit Report and Opinion for 2013/14
2. note the conclusions of the review of internal audit effectiveness assessed against the Public Sector Internal Audit Standards and the Key Performance Indicators established for the internal audit function.

Main Report

Introduction

1. The Public Sector Internal Audit Standards require the Head of Internal Audit to deliver an annual internal audit opinion and report that can be used by the City of London Corporation to inform its Annual Governance Statement. The Head of Internal Audit is satisfied that sufficient quantity and coverage of internal audit work and other independent assurance work has been undertaken to allow him to draw a reasonable conclusion as to the adequacy and effectiveness of the City's risk management, control and governance processes.

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 the 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 and Risk Management Committee during 2013/14 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 Public Sector Internal Audit Standards.

Progress against the plan

5. The Internal Audit Plan for 2013/14 was approved by the Audit & Risk Management Committee on the 5th February 2013. The internal audit section has experienced some turnover of staff during the year, with two senior auditors leaving, which resulted in some a loss of auditor resources whilst replacement staff were recruited The majority of the 2013/14 audit plan has been delivered and reported to at least draft report stage and provides the basis for the 2013/14 audit opinion.
6. Fifteen main audit reviews which are yet to be finalised from the 2013/14 audit plan and are at draft report stage. 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. Cumulative performance in the implementation of audit recommendations over the last 24 months has been monitored with 78% of audit recommendations confirmed as implemented, when formal audit follow-ups were undertaken as set out in the following table:-

Cumulative Performance over last 24 months (as at April 2014)

Implementation at time of audit follow-up (last 2 years)	Red	Amber	Green	Total
Recommendations Agreed	11	80	181	272
Recommendations Implemented	11	61	140	212
% implemented	100%	76%	77%	78%

8. Where red and amber priority recommendations were still to 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. No red priority recommendations are outstanding with one amber priority recommendation that was not fully implemented agreed for full completion by the end of May 2014.
9. Historical analysis of the implementation of red and amber priority recommendations according to agreed timescales shows that from the 1st April 2013 to the 31st March 2014, 70% of amber priority recommendations were implemented early or within one month of the originally agreed date, with 16% implemented more than 6 months afterwards. This represents a significant improvement on the position as reported to the Audit and Risk Management Committee in September 2013, where analysis of priority recommendations implementation from November 2011 to August 2013 identified that only 17% of recommendations were implemented on time.

Annual Opinion of the Head of Internal Audit

10. 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 2013/14 internal audit plan, 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
 - 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;
 - 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.
11. Following consideration of the above I am able to provide the following Head of Internal Audit Opinion for 2013/14:-

Audit Opinion

12. 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.
13. 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.
14. 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 further improved during the year.

Matters of Emphasis

15. 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:
16. **Compliance with Project Management Procedures:** Whilst the design of these systems is adequate, focused management attention is required in relation to compliance with the control framework, particularly in relation to checking of contractor final accounts and the timely updating of the corporate project monitoring system with risk and progress updates.
17. In my previous annual opinion, one area of emphasis I highlighted related to controls operating in relation to the control of social care client individual budgets. Similar significant issues relating to the financial control of social care Appointeeships and Deputyships were highlighted during the year. Audit follow-up work in both these areas has confirmed the implementation of all recommendations.

Annual Review of Performance

18. An annual performance and effectiveness review of the internal audit function has been undertaken as required by the Public Sector internal audit standards and is set out in **Appendix 2**. For 2013/14 this includes the outcome of the Public Sector Internal Audit Standards external peer review as well as achievement against the section's Key Performance Indicators.
19. The Internal Audit section generally complies with the new Public Sector Internal Audit Standard, with only a small number of minor issues to address before full compliance will be achieved. Several other areas for improvement in the internal audit function have been identified for action over the forthcoming year.
20. Ensuring full resourcing, to enable full delivery of the planned audit work programme is an on-going focus. It is planned to use interim resources, as required, should significant investigation activity and/or vacancies arise.

Conclusion

21. 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 and the implementation of audit recommendations according to agreed timescales has improved considerably during the year.
22. Ensuring full resourcing, to enable full delivery of the planned audit work programme is an on-going focus.

Appendices

- **Appendix 1 - Audit Report Summary**
- **Appendix 2 – Internal Audit Performance and Effectiveness Review**
- **Appendix 3 - Audit Resource Analysis**

Background Papers:

2013/14 Internal Audit Plan

2013/14 Internal Audit update reports

Paul Nagle CPFA

Head of Audit and Risk Management

T: 020 7332 1277

E: paul.nagle@cityoflondon.gov.uk