

<b>Committee(s)</b>	<b>Dated:</b>
Audit and Risk Management Committee	14/06/2016
<b>Subject:</b> Head of Internal Audit Opinion and Annual Report	<b>Public</b>
<b>Report of:</b> Chamberlain	<b>For Information</b>
<b>Report author:</b> Chris Harris – Chamberlain's	

### Summary

The Public Sector Internal Audit Standards require the Head of Internal Audit and Risk Management to provide the Audit and Risk Management Committee with an annual internal audit opinion. The opinion is used to help inform the City of London Corporation's Annual Governance Statement.

The following opinion is provided for the 12 months ended 31 March 2016:

*"I am satisfied that sufficient quantity and coverage of internal audit 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 the overall opinion, internal audit's work identified a number of opportunities for improving controls and procedures which are documented in each individual audit report."*

Three areas reviewed are highlighted in the internal audit opinion, which resulted in 'red' (limited) assurance opinions. These relate to internal audit reviews undertaken of the City of London Police covering: Invoices on Hold; Supplies and Services; and a Follow up of Disaster Recovery. All reports and recommendations have been accepted by management and implementation of the recommendations will be verified by Internal Audit follow up.

## **Recommendation**

Members are asked to note the Head of Internal Audit opinion.

## **Main Report**

### **Background**

1. The Head of Internal Audit and Risk Management is satisfied that sufficient quantity and scope of internal audit work has been undertaken to be able to draw a reasonable conclusion as to the adequacy and effectiveness of the City's risk management, control and governance processes. In reaching this conclusion the Head of Internal Audit and Risk Management has taken into account:
  - a. The work undertaken by the internal audit function throughout the entire year;
  - b. Key issues arising from this work; and,
  - c. Management responses to internal audit work
2. This report is supported, at **Appendix 1**, by a summary of all audit work finalised during the year. This work has been reported to the Audit and Risk Management Committee throughout the year.

### **Current Position**

### **Basis of Annual Opinion**

3. The following form the basis of the Annual Opinion:
  - Assessment of the quantity and coverage of risk based internal audit work against the 2015-16 internal audit plan to allow a reasonable conclusion as to the adequacy and effectiveness of the City's risk management, control and governance processes;
  - Review of the reports from the reviews undertaken during the year by internal audit and assessment of the assurances given;
  - Consideration of any significant recommendations not accepted by management and the consequent risks, of which there were none;
  - Assessment of the status of recommendations identified as not implemented, as part of internal audit follow-up reviews and subsequent progress tracking;
  - Consideration of the effects of any significant changes in the City's objectives or systems;
  - Review and consideration of matters arising from reports to the Audit and Risk Management Committee;
  - Consideration as to whether there were any limitations which may have been placed on the scope of internal audit.

## Annual Opinion

4. Sufficient quantity and coverage of internal audit work has been undertaken to allow a reasonable conclusion to be drawn as to the adequacy and effectiveness of risk management, control and governance processes.
5. 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 or that no fraud exists within the systems and processes subject to audit review.
6. Notwithstanding the 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. Three "Red Assurance" reviews have been produced which have been accepted by management and controls improvements are being implemented.

## Direction of Travel

7. Set out below is a comparison of the percentage of internal audit reports receiving Red, Amber and Green Opinions over the last 3 financial years. Members will note that from a relatively static position in 2013-14 and 2014-15 the balance of assurances has moved to more Amber and fewer Green Assurances. This is largely the result of doing fewer larger audits more focussed on the key risks and also stems from management seeking internal audit input in areas where they have concerns. This has identified more control issues for correction and therefore more Amber reports. It should be noted however that Amber assurance opinions are still a positive outcome with control frameworks fit for purpose and therefore the overall opinion remains unchanged.

Financial Year	% of Green Assurance Reports	% of Amber Assurance Reports	% of Red Assurance Reports
2013/14	72	25	3
2014/15	71	25	4
2015/16	31	62	7

## Key Achievements

8. The Committee have been particularly interested in cyber security risks and requested further information on the work of the Corporation in combatting these risks. Internal Audit reviewed the City Corporation's and the City of London Police's response to cyber security risks. Two reports were provided to the Committee which covered the Corporation's information security policy, benchmarking, internal and external assurance.

9. Internal Audit has delivered their Service Based Review savings of £220k whilst maintaining a sufficient level of coverage of the audit universe to provide an annual opinion. Fewer, but more in depth, internal reviews have led to an increased number of areas receiving overall amber assurance opinions, as the team have been able to spend time understanding the root causes of problems experienced by teams and weaknesses identified.
10. The team is working more closely with the Council's Risk Manager and Counter Fraud Manager to ensure fraud intelligence and key risk issues feed into the planning of individual internal audit reviews. The plan now focuses more on key business plan objectives and risk.

## **Review of Performance**

11. An annual performance and effectiveness review of the internal audit function is required by the Public Sector Internal Audit Standards. Key outcomes were:
  - a. The internal audit function achieved delivery of 94% of the plan by 31st March 2016.
  - b. Performance levels of implementing recommendations have been maintained and no high priority audit recommendations were outstanding at the time of the last follow up exercise;
  - c. The target of members of the team holding a relevant qualification continues to be met; and
  - d. Satisfaction survey results remain positive.

## **Conclusion**

12. Internal Audit work continues to identify improvement areas for management; albeit, the overall opinion provided on the City's internal control environment is that it remains adequate and effective. There is a high level of acceptance of recommendations, and all high priority recommendations followed up have been implemented within agreed timescales.

## **Appendices**

- Appendix 1 – List of completed internal audit reviews in 2015-16

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