

<b>Committee(s)</b>	<b>Dated:</b>
Audit and Risk Management Committee	29 May 2018
<b>Subject:</b> Head of Internal Audit Opinion and Annual Report 2017/18	<b>Public</b>
<b>Report of:</b> Head of Audit & Risk Management	<b>For Information</b>
<b>Report author:</b> Pat Stothard – Head of Audit & Risk Management	

### 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 2018:

*"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."*

Four areas reviewed are highlighted in the internal audit opinion, which resulted in 'red' (limited) assurance opinions. These relate to internal audit reviews undertaken of: Members and Officers Declarations of Interests; Open Spaces Repairs and Maintenance; Barbican Centre Retail and Bars and Guildhall School of Music and Drama Catering. 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 for 2017/18.

## **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 audit work completed 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 2017/18 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. It should be noted that the opinion is based only on reports which have been finalised. A number of reports have yet to be finalised from the 2017/18 audit plan; these will feed into the opinion for 2018/19.
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. Four "Red Assurance" reviews have been produced which have been accepted by management who have advised that control improvements are being implemented. It should be noted that the four reviews have given rise to only five "Red" priority recommendations, which is not a cause for concern.

## 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 three financial years. Members will note that the percentage of red and green assurance reports in 2017-18 has decreased from the previous two years and the percentage of amber assurance reports has increased.

Financial Year	% of Green Assurance Reports	% of Amber Assurance Reports	% of Red Assurance Reports
2015-16	31	62	7
2016-17	40	50	10
2017-18	13	74	3

## Conformance with the Public Sector Internal Audit Standards

8. The outcome of the External Quality Assessment undertaken by Mazars, finalised in 2017-18, confirmed that the internal audit function at the Corporation **Generally Conforms** to the Public Sector Internal Audit Standards. External assessments are required to be undertaken every five years.

## **Review of Performance**

9. The Internal Audit team aim to maintain a high level of quality in the delivery of their work. Key outcomes were:
  - a. The internal audit function achieved delivery of 95% of the plan by 31st March 2018.
  - b. Performance levels of implementing recommendations have largely been maintained;
  - c. The target of members of the team holding a relevant qualification continues to be met.

## **Conclusion**

10. 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.

## **Appendices**

- Appendix 1 – Overview of finalised internal audit reviews in relation to the 2017-18 audit plan.

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