

## **London Councils – AUDIT COMMITTEE**

### **Internal Audit Reviews for the Twelve Months to 31<sup>st</sup> March 2016**

#### **Introduction**

The purpose of this report is to provide details of the work undertaken at London Councils by the City of London Corporation's Internal Audit Section during the period 1<sup>st</sup> April 2015 to 31<sup>st</sup> March 2016. There were three full assurance reviews undertaken during the year. The total number of audit days was 20. A further 15 day planned review of Grants was postponed to April 2016 at the request of the Grants Manager. A further five days, two in respect of follow-up reviews and three days for contingency were also carried forward to be used in 2016-17. Three Amber rated recommendations and four Green rated recommendations were made.

Audit	Assurance Opinion	Recommendations			
		Red	Amber	Green	Total
Key Financial Controls	GREEN	0	1	0	1
Risk Management	AMBER	0	1	2	3
ICT IT Strategy	AMBER	0	1	2	3
<b>Total</b>		<b>0</b>	<b>3</b>	<b>4</b>	<b>7</b>

#### **System Reviews Completed 2015-16**

##### **Key Financial Controls (10 days)**

Based on testing performed, adequate key financial controls are operated by London Councils' to control and safeguard income and expenditure, and therefore, reducing the risk of fraud and error. Financial activities are regulated by current Financial Regulations, with additional guidance to staff in the form of standard operating procedures. Sample testing confirmed compliance for those areas within the scope of this review. An amber priority recommendation was been made in terms of the absence of information captured on the inventory records.

##### **Risk Management (5 days)**

It was established that an adequate risk management framework was in place. The Risk Management Strategy & Framework, however, was last formally reviewed and approved by the Audit Committee in May 2012. Whilst Business Continuity Plan testing is undertaken on a regular basis, the results of the test are not scheduled to be presented to Audit Committee. In addition, the draft revised Business Continuity Plan did not contain information to enable effective business continuity arrangements to be undertaken.

### **ICT – IT Strategy (5 days)**

On the basis of testing performed, progress has been made since the 2014 Internal Audit review of ICT Strategy and a number of examples of good practice evidenced. The ICT strategy document has been developed with input from relevant parties and has been appropriately ratified. Testing confirmed that there are adequate arrangements for strategy review to ensure continued alignment with business goals.

The following areas for improvement were identified:

- No evidence was obtained of Disaster Recovery test exercises having been performed.
- It is understood that a ten percent threshold is operated for disk utilisation this was not found to be formally documented.
- There is a clear specification of IT compliance regulations and expected standards and audit testing indicated that there are adequate measures in place internally to ensure on-going adherence. However, a recommendation was made in relation to arrangements for confirming third party compliance.

### **Role of Internal Audit and Opinion on the Overall Internal Control Environment**

Internal Audit plays a role in providing the required assurance on risk, governance and control through its comprehensive risk-based audit of all auditable areas within the five-year planning cycle. This is reinforced by consultation with the Audit Committee, the Director of Corporate Resources and management team on perceived risk, any areas of concern and a follow-up audit regime.

Throughout the year the Audit Committee receives reports from the Head of Audit and Risk on individual areas reviewed of the extent that London Councils can rely on its system of internal control and to provide reasonable assurance that the objectives of London Councils will be achieved efficiently. The outcomes of these reviews are used to produce the annual Head of Internal Audit opinion. They also inform the planned work for the following year, the Five Year Strategic Plan and the scope of audit coverage across all aspects of London Councils' operations.

Each project in the Five Year Plan has been carefully considered, taking into account risk, significance, and the resources required to produce a professional product. The Five Year Plan represents a minimum level of cover, across London Council's activities, ensuring each significant area of operational risk is examined at least once every five years and consideration is given to new risks emerging during each financial year.

The principles of risk management have been applied throughout the planning process in the allocation of resources to each audit and were carefully considered against the assessed likelihood, frequency and severity of potential loss resulting from realisation of individual risks.

London Councils' main accounting and payroll systems are provided by the City of London Corporation (CBIS and CityPeople). These systems are subject to annual

review by the Internal Audit Section and are considered by both Internal Audit and the City's External Auditors to provide a high level of internal control.

It is the Head of Audit and Risk's opinion that the systems of internal control operated within London Councils are generally robust and can be reasonably relied upon to ensure that objectives are achieved efficiently. Overall, Internal Audit work shows that service managers generally take appropriate action to manage and mitigate risk. 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.

The system of internal audit provided to London Councils is considered to be working satisfactorily. This conclusion is based on the review undertaken against the Code of Conduct for Internal Audit in Local Government (the CIPFA Code), the CIPFA Statement on The Role of The Head of Internal Audit in Local Government, and Public Sector Internal Audit Standards (PSIAS). The work of Internal Audit is relied upon by London Councils' External Auditors (KPMG).

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