

## **London Councils – AUDIT COMMITTEE**

### **Internal Audit Reviews for the Twelve Months to 31<sup>st</sup> March 2014**

#### **Introduction**

This report sets out the work that has been undertaken at London Councils by the City of London Corporation's Internal Audit Section during the period 1<sup>st</sup> April 2013 to 31<sup>st</sup> March 2014 and details the current position concerning outstanding recommendations where follow-up reviews have been completed. A comprehensive schedule of work completed within the financial year is included in Table One.

#### **System Reviews Completed During 2013/14**

##### **London Lorry Control Scheme System (15 days)**

The audit reviewed controls in relation to system strategy, management responsibility, configuration, security, operational procedures and resilience. The review provided assurance on the data integrity of the whole system. The recommendations included in the report relate to the incorporation of the debt registration functionality, performance monitoring reports, segregation of duties and system security protocols.

Agreement was obtained that all recommendations would be implemented by 31<sup>st</sup> August 2013.

<b>Recommendations</b>	<b>Red</b>	<b>Amber</b>	<b>Green</b>	<b>Total</b>
Number Made:	0	0	6	6
Number Accepted:	0	0	6	6

##### **ICT Strategy, Security, Operations and Business Continuity (15 days)**

The audit reviewed controls in relation to the IT strategy, segregation of duties and responsibilities, configuration and infrastructure, access controls, operational procedures and business continuity. The review revealed that whilst an adequate control framework was in place, there were a number of areas that required addressing such as updating the overall ICT strategy and the business continuity and disaster recovery plans. There were also recommendations on improvements to system security, hardware infrastructure, performance monitoring and staff data security awareness. The report acknowledged that management was already taking action to address a number of the issues that were raised.

Agreement was obtained that all recommendations would be implemented by 31<sup>st</sup> August 2014.

Recommendations	Red	Amber	Green	Total
Number Made:	0	7	10	17
Number Accepted:	0	7	10	17

### **Grants (including probity checks) (15 days)**

There has been a notable improvement in the processes and controls of the London Councils' grants scheme since the previous audit in October 2012. Where appropriate, Internal Audit have conducted 100% sample testing in order to provide greater assurance. The application and shortlisting process prior to the programme's instigation is fair and transparent. Candidates' operational and financial eligibility is verified prior to acceptance into the scheme. Formal grant agreements are in place to clearly dictate the terms of the funding and safeguard London Councils' finances. The returns process is quarterly, clearly documented, consistently applied and it has been evidenced that payments are not processed without submission of the required documentation. Furthermore, all expected payments to date have been processed correctly.

On consideration of the high value of some of the grants and the BNRRN issue in 2012, a minor opportunity for improving reference checks has been recommended. The introduction of a second reference check for organisations which have not been funded by London Councils before, or for those awarded over £1million per year, should be considered to further manage the risk of adverse performance issues during future grants programmes.

Recommendations	Red	Amber	Green	Total
Number Made:	0	0	1	1
Number Accepted:	0	0	1	1

### **Third Party Payments (15 days)**

This review focussed on ensuring that the refunds supplied to each London borough were consistent and in accordance with the terms agreed by councillors, following the agreement to reduce London Councils' reserves. In addition, the distribution of funds for the Metropolitan Police Service (MPS) child safeguarding initiative across the boroughs was assessed. For both areas, Internal Audit considered promptness of payment, consistency and transparency of process.




No recommendations have been made as a result of this review.

### **Spot Check Review – Petty Cash & Safe & Inventory) (1 day)**

For a sample of transactions reviewed, the majority of the systems reviewed were operating satisfactorily and in accordance with Financial Regulations. There are, however, weaknesses in the maintenance of inventories which are currently out of date since 2010.

Recommendations	Red	Amber	Green	Total
Number Made:	0	0	1	1
Number Accepted:	0	0	1	1

### **Follow-up Review: Freedom Passes (1 day)**

RAG Rating	Recommendations	Implemented	Partially Implemented	Outstanding
	0	0	0	0
	0	0	0	0
	2	2	0	0
<b>Total</b>	<b>2</b>	<b>2</b>	<b>0</b>	<b>0</b>

### **Other Follow-up Activity**




#### **London Lorry Control Scheme System**

Management have provided verbal confirmation that all recommendations have now been implemented. There were six green-rated recommendations.

Issue	Red 	Amber 	Green 	Comment
Functionality	0	0	1	Implemented
Adaptis SLA	0	0	1	Implemented
Segregation of Duties	0	0	1	Implemented
Access Security	0	0	1	Implemented
System Changes	0	0	1	Implemented
Fault Corrections	0	0	1	Implemented
<b>Total</b>	<b>0</b>	<b>7</b>	<b>6</b>	

**ICT Strategy, Security, Operations and Business Continuity**

There were seven amber-rated recommendations and ten green-rated recommendations. A formal follow-up review is yet to be undertaken, but management have given a verbal update on the position as at 30<sup>th</sup> June 2014.

Issue	Red 	Amber 	Green 	Comment
ICT Strategy	0	1	0	August 2014
Responsibilities	0	0	1	Implemented
Configuration	0	2	1	January 2015
Logical Access	0	0	1	January 2015
Housekeeping	0	3	5	Implemented
Resilience	0	1	2	Implemented
<b>Total</b>	<b>0</b>	<b>7</b>	<b>10</b>	

**Priority Risk Rating Key**

= Green – Low risk and/or weaknesses already being addressed



= Amber – Medium risk requiring mitigation and prompt action.



= Red – High risk – urgent action required.

Table One

## Schedule of Internal Audit Projects 2013/14

Full Reviews				Recommendations			
Project	Planned Days	Planned Completion Date	Current Stage	Total Red	Total Amber	Total Green	Total
<u>Grants (Including Probity Checks)</u>  The purpose of this review was to examine the system for assessing applications, the approval of grants by the Grants Committee, payment of funds in accordance with agreements, and receipt of quarterly returns from organisations. The review also sought to establish whether recommendations made from the previous reviews had been implemented.	15	31 <sup>st</sup> March 2014	Completed	0	0	1	1
<u>Third Party Payments</u>  This review examined the process for making refunds to London Borough Councils and the City of London Corporation in respect of the annual contribution. It also assessed the robustness of payment processing in respect of other third party payments.	15	31 <sup>st</sup> March 2014	Completed	0	0	0	0

APPENDIX B

Project	Planned Days	Planned Completion Date	Current Stage	Total Red	Total Amber	Total Green	Total
<u>Strategy, Security, Operations &amp; Business Continuity</u>  Standard BCMS review (includes organisational structure, policies, planning activities, responsibilities, procedures and resources).	15	31 <sup>st</sup> March 2014	Completed	0	7	10	17
<u>Lorry Ban System</u>  This review examined the software support for enforcement of the Lorry Ban Regulations.	15	31 <sup>st</sup> March 2014	Completed	0	0	6	6
<b>Spot Check Reviews</b>							
Petty Cash, CDT, Safe & Inventory	1	31 <sup>st</sup> March 2014	Completed	0	0	1	1
<b>Follow-up Reviews</b>		<b>Completed</b>	<b>RED</b>	<b>AMBER</b>	<b>GREEN</b>	<b>Implemented</b>	
Freedom Passes	1	January 2014	0	0	1	1	

**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 his management team on perceived risk and any areas of concern and finally, by a rigorous follow-up audit regime.

The Audit Committee receives reports from the Head of Audit and Risk on 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. These reports are provided annually as well as a separate report in March detailing 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 Councils' 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 Trent). 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 (PriceWaterhouseCoopers).

**Paul Nagle**  
**Head of Internal Audit, CPFA**  
**City of London Corporation**  
**18<sup>th</sup> June 2014**