

June 15, 2020

Members of The Corporation of the City of London Audit Committee

Subject: Internal Audit Summary Update

Internal Audit has included a summary memo with our material to highlight major accomplishments since our last update to the Audit Committee and to draw your attention to the matters of greatest importance. We will cover these documents in more detail at the meeting and respond to all questions you may have.

1. Internal Audit Dashboard Report

2020 IA Plan

- a. Given the current situation the approved 2020 internal audit plan has been delayed based on the request of management given the current circumstances.
- b. Internal Audit will re-evaluate the projects and timing with management as appropriate. As a result of COVID-19, there are a number of emerging risks impacting the municipal government that should be considered by the City. The key areas that would require further discussion with management are: digital security and working remotely, cyber incident response monitoring, and processes around return to work. Additional general information published by Deloitte on the emerging risk areas for Internal Audit to consider has been included in the package for reference.
- c. Fieldwork for Service London was completed in early March. Management and Deloitte have recently discussed the draft report and management comments are being finalized.









2. Audit Observation Status Summary of High and Medium Priority Observations

- a. Since the last Audit Committee meeting, Internal Audit has not followed up with management given the current circumstances. Management follow-up will recommence as appropriate. The status as of March 2, 2020 has been included in the package for reference.

The Corporation of the City of London

January – December 2020 internal audit dashboard as at June 15, 2020

Project status – 2020 internal audit plan

2020 Audit plan project	Percent complete	Est. timeframe ¹	Project status ²	Report issued
• Service London Assessment		90% Jan – Mar	DL	
• Traffic Management Project Review	0%	Apr – Jun	DL	
• Clerks Office Assessment		5% Jun – Aug	DL	
• Fire Process Assessment	0%	July – Sept	DL	
• Class replacement Pre-implementation Project Review		90% Ongoing	DL	

OT – On track DF – Deferred DL – Delayed

Internal audit activities – March to August 2020

- There has been no significant activity since our last meeting and the delays are all due to the COVID related slowdown in work
- Service London Assessment (Reporting)

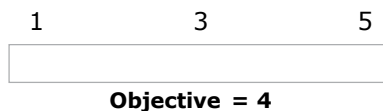
Other activities

- Prepare Audit Committee meeting materials
- Recommence observation follow-ups and validation

2020 Performance metrics

Project customer satisfaction

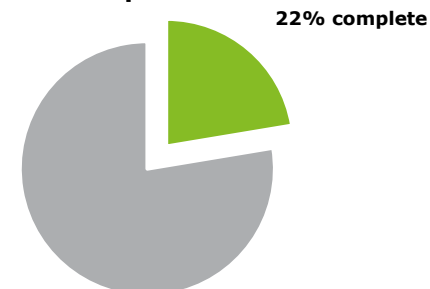
Overall quality of work/satisfaction level? (Based on completed reports surveys returned)



Internal audit 2020 reporting

	Draft (days)	Management comment (days)	Issue final (days)	Final (days)
• Objective	5.0	15.0	10.0	30.0
• Performance	N/A	N/A	N/A	N/A

% Complete of the 2020 internal audit plan



Comments

¹ Agreed timing with management to scope project and kick-off fieldwork

² Project is currently delayed due to current circumstances

It is not just Internal Audit that will be changed by the COVID-19 experience. We expect there will likely be more remote working, less travel, greater use of technology, and many other changes, depending on industry (e.g. closing physical points of sale, rethinking offshoring, pushing people to digital channels, dealing with other fundamental and permanent changes to customer behaviour, changes to regulatory approaches and people strategy to name but a few. Internal Audit needs to consider these and the impact on their future focus within organizations.



Emerging risk areas for Internal Audit to consider

Risk Area	Areas to consider
User Access Controls	<p>Due to flexible working arrangements and individuals requiring greater access to systems to help cover for people who are off, user access controls may be compromised and conflicts of interest may arise.</p> <p>IA considerations could include:</p> <ul style="list-style-type: none"> • Monitoring controls in place – whilst it may be necessary to remove segregation of duties rules in place, it is critical for organizations to maintain an audit trail that can be referred to at a later date. • The detection of fraud risks and management overrides.
Finance	<p>IA considerations could include:</p> <ul style="list-style-type: none"> • Understanding working capital requirements against scenario planning assumptions and assessing cash flow forecasts. • Has the organization done all it can to access government provided fiscal support and does it understand the longer term implications of that support (for example repayment of loans)? • Challenging the completeness of management’s accounting and reporting impact analysis, particularly in the context of finalizing December 2019 year-end financial statements and forthcoming quarterly reporting deadlines.
Internal Controls	<p>IA should understand the changes, both temporary and permanent, being made to the organization’s internal control environment, with a specific focus on the following:</p> <ul style="list-style-type: none"> • Management review controls; • Accounting judgment controls (bad debt provision, inventory provision, impairment of goodwill and intangible assets, fair value of financial and non-financial assets); • Associate or joint venture accounting controls; • Transaction processing controls; • Cash payments controls; • Automated business controls; • Outsource service providers; • Insider Trading concerns; • Key person dependency/Super User access; and • Resilience and remote working.
Cyber	<p>As the number of remote working environments and the use of third-party software to improve the effectiveness of remote working increases, individuals may inadvertently compromise business security. Internal Audit considerations could include:</p>

Risk Area	Areas to consider
	<ul style="list-style-type: none"> • Are remote access controls built to scale? • How are organizations raising awareness and bolstering threat detection and response to promote proactive identification of malicious activity? • How are organisations tracking third party security plans to prioritise access availability of services? • Are hand-held devices being used more as people work remotely and, if so, are they secure and controlled? • Does the organization have sufficient and appropriate licenses in place to cover greater use of tools, technology, and software to support remote working? • How is the organization monitoring malicious or inadvertent insider threat risk caused by disgruntled or displaced employees and contractors? • How is the organization monitoring the increased use of collaboration tools and other, often unapproved and unmanaged, SaaS applications (Shadow IT)?
Insurance	<p>IA considerations could include:</p> <ul style="list-style-type: none"> • As kitchens and bedrooms become more permanent home offices, are there increased exposures in insurance liabilities? • Are health and safety regulations still being complied with?
Risk Management	<p>IA considerations could include:</p> <ul style="list-style-type: none"> • Does the organization have on-going processes in place to continue to meet all of its regulatory responsibilities? • Does the risk assessment process need to become more agile and adopt more dynamic risk assessment methodologies?
Business Continuity	<p>IA considerations could include:</p> <ul style="list-style-type: none"> • Helping organizations understand any single points of failure e.g. processes, employees and technologies. • Developing and/or testing appropriate scenarios, plans or measures, including war-gaming, to restore business operations (disaster recovery plans). • Validating and challenging key MI used by management to make decisions on mission-critical activity and challenging and benchmarking management's assumptions regarding the nature, extent, and duration of the situation; • Challenging management's forecasts of business impact (e.g. going concern, pension scheme accounting, goodwill and intangibles, expected credit losses) noting that Q1 reporting deadlines are approaching and that many organizations have made public promises regarding customer concessions – are these being delivered and is the financial impact estimated appropriately? • Considering management's assessment, monitoring, and contingency plans of key outsource service providers.
Supply Chain	<p>IA considerations could include:</p> <ul style="list-style-type: none"> • Assessing whether sufficient resources, including third parties, are in place to maintain critical activities at sufficient levels. • Determining how organizations understand and prepare for changes in demand and balancing the availability of both stock and resources accordingly. • How best to provide assurance over joint ventures, whose owners may have different priorities.

Risk Area	Areas to consider
Customers	<p>IA considerations could include:</p> <ul style="list-style-type: none"> • Has the organization adopted a clear communication plan for its customers, including those customers who are particularly vulnerable?
Contracts	<p>IA considerations could include:</p> <ul style="list-style-type: none"> • Has the organization identified, or does IA have access to assist in identifying, key contractual clauses which may offer relief during this time, such as: <ul style="list-style-type: none"> ○ Force Majeure; ○ Notice Provisions; ○ Disaster Recovery and Business Continuity Provisions; ○ Limitation of Liability; ○ Liquidated Damages; ○ Governing Law and Jurisdiction; ○ Supplier/Subcontractor location and supply chain path; ○ Termination Rights; ○ Insurance; and ○ Other applicable clauses.
Human Capital	<p>IA considerations could include:</p> <ul style="list-style-type: none"> • The adequacy of plans being put in place by organizations to maintain the health and well-being of their workforce, including the implications for impact on mental health of remote working. • Ensuring that any 'work arounds' used during lockdown period are regularized and appropriately controlled. • Is there guidance available and complied with on the appropriate use of social media in this crisis period? • Has the impact been considered on business as usual HR processes such as annual performance assessments potentially being suspended?



**City of London Audit Committee Observation Summary
As at March 2, 2020**

LEGEND	
Observations closed	All observations have been addressed by management
Remediation in progress	Observations in progress are being addressed by management including observations where initial timeline was missed but a plan is in place for remediation that appears acceptable
Remediation in progress - exceptions noted	Management has missed implementation deadlines for observations and no adequate resource plan has been identified
Management accepts the risk	Management has accepted the remaining risk

Report Summary				Observation Status for Management Action Plans due March 2, 2020.					
Internal Audit Plan Year	Report	Report Issue Date	Total High & Medium Observations	Observations Closed Per Management	Closed Per Internal Audit	In Progress Observations (Not Due)	Past Due Observations	Observations Closed by IA Since November 2019 update	Timing
2017/2018	Building Permit Process Assessment	Jan-18	3	3	3	0	0	1	Complete
2017/2018	Parking Revenue Generation Assessment	Jun-18	5	4	4	1	0	2	Jun-20
2017/2018	Homeless Prevention Assessment	Oct-18	4	2	2	2	0	1	Jun-20
2017/2018	Health and Safety Assessment	Mar-19	3	3	3	0	0	2	Complete
2017/2018	Housing Process Assessment	Mar-19	5	5	5	0	0	4	Complete
2017/2018	IT Portfolio Management and Project Management Assessment	Mar-19	4	3	3	1	0	0	Apr-20
2017/2018	Class Replacement Pre-implementation Project Review (Progress Memo)	Jun-19	2	1	1	1	0	0	Apr-20
2017/2018	Construction Procurement Process Assessment	Aug-19	8	8	8	0	0	8	Complete
Sub-total 2017/2018 reports			34	29	29	5	0	18	
2019	IT Security Assessment	Nov-19	1	0	0	1	0	0	Sep-20
2019	Electronic Fund Transfer Assessment	Feb-20	1	0	0	1	0	0	May-20
2019	Computerized Maintenance Management System (CMMS) Review	Feb-20	9	0	0	9	0	0	May-20
2019	Dearness Home Process Assessment	Feb-20	4	0	0	4	0	0	Mar-21
Sub-total 2019 reports			15	0	0	15	0	0	
Total High and Medium observations			49	29	29	20	0	18	

Closed per Management: Management has indicated that action plans due to be acted upon by March 2, 2020 are complete.

Closed per IA: Internal Audit has validated Management's assertions of observation closure through review of evidence.

In Progress Observations: Management action plans due beyond March 2, 2020 are underway or management has asserted observations are closed but Internal Audit has not yet validated.

Past Due Observations: Actions plans due by March 2, 2020 have not been fully acted upon.

Observations Closed by Internal Audit since last update: Management has indicated in the current period that action plans are complete and Internal Audit has validated through review of evidence.