



## Audit and Risk Management Committee

**Date:** TUESDAY, 6 MARCH 2018

**Time:** 2 PM

**Venue:** COMMITTEE ROOMS, 2ND FLOOR, WEST WING, GUILDHALL

**Members:**

Alderman Ian Luder (Chairman)	Deputy Jamie Ingham Clark (Ex-Officio Member)
Alderman Nick Anstee (Deputy Chairman)	Kenneth Ludlam (External Member)
Randall Anderson	Paul Martinelli
Alexander Barr	Caroline Mawhood (External Member)
Chris Boden	Jeremy Mayhew (Ex-Officio Member)
Alderman Charles Bowman	Hugh Morris (Ex-Officio Member)
Henry Colthurst	
Hilary Daniels (External Member)	1 x vacancy
Alderman Peter Estlin	

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**PLEASE NOTE: A WORKING LUNCH WILL BE AVAILABLE IN THE COMMITTEE ROOM FROM 12.45 PM**

**THEE RISK CHALLENGE SESSION WILL COMMENCE AT 1 PM**

**THE COMMITTEE MEETING WILL START AT 2PM**

**John Barradell  
Town Clerk and Chief Executive**

# AGENDA

## Part 1 - Public Agenda

1. **APOLOGIES**
2. **MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**
3. **MINUTES OF THE PREVIOUS MEETING**  
To agree the public minutes and non-public summary of the meeting held on 16<sup>th</sup> January 2018.  

**For Decision**  
(Pages 1 - 8)
4. **OUTSTANDING ACTIONS OF THE COMMITTEE**  
Report of the Town Clerk.  

**For Information**  
(Pages 9 - 12)
5. **COMMITTEE WORK PROGRAMME**  
Report of the Town Clerk.  

**For Information**  
(Pages 13 - 16)
6. **DEEP DIVE RISK REVIEWS**  

**For Information**

  - a) **CR10 Adverse Political Consequences** (Pages 17 - 20)  
Report of the Remembrancer.
  - b) **CR16 Information Security** (Pages 21 - 38)  
Report of the Chamberlain.
7. **FIRE SAFETY UPDATE**  
Report of the Director of Community and Children's Services.  

**For Information**  
(Pages 39 - 44)
8. **INTERNAL AUDIT UPDATE**  
Report of the Head of Internal Audit and Risk Management.  

**For Information**  
(Pages 45 - 56)

9. **2018/19 TO 2020/21 - DRAFT INTERNAL AUDIT PLAN**

Report of the Head of Internal Audit and Risk Management.

*Please note – Appendix 1 to this report is fairly long and detailed. It will therefore be provided electronically, separate to the main agenda, and printed copies will be available at the meeting.*

**For Decision**  
(Pages 57 - 64)

10. **INTERNAL AUDIT CHARTER - UPDATE 2018**

Report of the Head of Internal Audit and Risk Management.

**For Information**  
(Pages 65 - 82)

11. **ANNUAL GOVERNANCE STATEMENT - METHODOLOGY**

Report of the Town Clerk.

**For Decision**  
(Pages 83 - 88)

12. **BRIDGE HOUSE ESTATES, CITY'S CASH, CITY'S CASH TRUSTS, THE CORPORATIONS SUNDRY TRUSTS & OTHER ACCOUNTS EXTERNAL AUDIT STRATEGY & PLANNING REPORT ON THE 2017-18 FINANCIAL STATEMENTS**

Report of the External Auditors, Moore Stephens. TO FOLLOW

13. **CITY FUND AND PENSION FUND ACCOUNTS EXTERNAL AUDIT STRATEGY & PLANNING REPORT ON THE 2017-18 FINANCIAL STATEMENTS**

Report of the External Auditors, BDO.

**For Information**

a) **City Fund** (Pages 89 - 110)

b) **Pension Fund** (Pages 111 - 128)

c) **Grant Claims and Returns Certification** (Pages 129 - 134)

14. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
15. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**
16. **EXCLUSION OF THE PUBLIC**

**RESOLVED:** That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part I of the Schedule 12A of the Local Government Act.

**For Decision**

**Part 2 - Non-Public Agenda**

17. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**

To agree the non-public minutes of the meeting held on 16<sup>th</sup> January 2018.

**For Decision**  
(Pages 135 - 136)

18. **CITY OF LONDON POLICE PROGRAMME MANAGEMENT AUDIT**

Report of the Head of Internal Audit and Risk Management.

*Please note: this report has been added at the request of Member of this Committee, who also serves on the Police Performance and Resource Management Sub Committee.*

**For Information**  
(Pages 137 - 170)

19. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
20. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE COMMITTEE AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**

**At the end of the meeting, Members will have an opportunity to speak to the External Auditors, in closed session**

## AUDIT AND RISK MANAGEMENT COMMITTEE

**Tuesday, 16 January 2018**

Minutes of the meeting of the Audit and Risk Management Committee  
held at Guildhall at 2.00 pm

### Present

#### Members:

Alderman Ian Luder (Chairman)  
Alderman Nick Anstee (Deputy Chairman)  
Randall Anderson  
Alexander Barr  
Henry Colthurst  
Hilary Daniels (External Member)  
Alderman Peter Estlin  
Deputy Jamie Ingham Clark (Ex-Officio Member)  
Kenneth Ludlam (External Member)  
Caroline Mawhood (External Member)  
Paul Martinelli  
Jeremy Mayhew (Ex-Officio Member)

#### Officers:

Julie Mayer	-	Town Clerk's Department
Peter Kane	-	Chamberlain
Assistant Commissioner Alistair Sutherland	-	Assistant Commissioner, City of London Police
Caroline Al-Beyerty	-	Deputy Chamberlain
Paul Dudley	-	Chamberlain's Department
Philip Gregory	-	Chamberlain's Department
Richard Jeffrey	-	Comptroller and City Solicitor's Department
Philip Saunders	-	Remembrancer's Department
Damian Nussbaum	-	Director of Economic Development
Gerald Mehrrens	-	Director of Academy Development
Leigh Lloyd-Thomas	-	BDO (External Auditors)

#### 1. **APOLOGIES**

Apologies were received from The Rt. Hon. The Lord Mayor, Alderman Charles Bowman, Hugh Morris and Chris Boden.

#### 2. **MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**

There were no declarations.

3. **MINUTES OF THE PREVIOUS MEETING**

RESOLVED, that – the minutes of the meeting held on 28 November 2017 be approved.

4. **OUTSTANDING ACTIONS OF THE COMMITTEE**

Members received the Committee's Outstanding Actions List, including those items which would be discharged on this agenda and those which were scheduled for later meetings.

5. **COMMITTEE WORK PROGRAMME**

Members received the Committee's Work Programme and noted that meetings for Members to meet with the External Auditors (with no officers present) and the Head of Internal Audit and Risk Management (also with no officers present) had been scheduled for 6 March and 29<sup>th</sup> May.

6. **DATA PROTECTION BILL 2017**

Members considered a report of the Remembrancer in respect of the Data Protection Bill 2017. Members noted that this report provided an overview of the political debate and supplementary details on the Bill, further to the report of the Comptroller and City Solicitor, which Members received at their last meeting of the Audit and Risk Management Committee and which dealt with the City's approach to implementing forthcoming data protection rules. The regulations would be in force by May 2018.

Members noted that, for their constituency work, each Common Councilman would be the 'data controller' and further noted the Comptroller was running a Development Session on 30 January which would cover the mechanics of the City's compliance with the new rules. All members have been invited and, so far, 20 Members had signed up.

The capacities of the City of London Corporation's activities would be covered during the training session. Members noted that Departments were very aware of the City Corporation's dual roles and where they might overlap, and that the legislation would apply differently to the City Corporation's public and private business.

RESOLVED, that – the report be noted.

7. **POSITION OF DEPUTY CHAIRMAN OF THE AUDIT AND RISK MANAGEMENT COMMITTEE: STANDING ORDER 29 (3)**

Members considered a report of the Town Clerk in respect of the position of the Deputy Chairman of the Audit and Risk Management which, for the time being, was restricted (under Standing Order 29 (3)) from standing as Chairman of any other Committee. Members were reminded that, with only a few exceptions, Chairman could not chair more than one Grand Committee at the same time.

Members noted that, as the Committee had experienced difficulties in recruiting to a vacancy and, last year, in the appointment of a Chairman, the report suggested that lifting this restriction might raise interest in serving on the Committee and improve succession planning generally. However, there was a

consensus amongst Members for retaining the independence of the roles of both Chairman and Deputy Chairman and the restriction reflected CIPFA good practice.

There was a further discussion about the restrictions on External Members serving as Chairman or Deputy Chairman of the Audit and Risk Management Committee, as was often the case in other local authorities. Members were reminded that, as non-Court Members could not speak in the Court of Common Council, this restriction could not be lifted. Members were also reminded of the provisions of the Local Government and Housing Act 1989 which stated that External Members of a Committee, who were not Members of the Authority, would have no voting rights.

Given the valued role of the Committee's External Members, as evidenced by the Court's approval to their serving second and third terms, Members felt that their hard work and contribution should be reflected by allowing the Audit and Risk Management Committee to elect a second Deputy Chairman from its External Membership. Members also thought it timely to extend the Membership of the Committee by 1 Member, to widen the pool of Members who might be interested in serving as Deputy Chairman and Chairman. Meanwhile, Members were encouraged to continue to promote the good work of the Committee and the opportunities to serve on it.

RESOLVED, That:

The Policy and Resources Committee be asked to recommend, to the Court of Common Council that the Terms of Reference of the Audit and Risk Management Committee be amended to include:

1. A second Deputy Chairman, appointed from the External Membership of the Committee.
2. An additional Member to the Audit and Risk Management Committee.

8. **SUCCESSION PLANNING FOR EXTERNAL MEMBERS: TO APPOINT A NOMINATIONS SUB COMMITTEE OF THE AUDIT AND RISK MANAGEMENT COMMITTEE**

Members considered a report of the Town Clerk in respect of succession planning for External Members, which sought to appoint a Nominations Sub Committee of the Audit and Risk Management Committee.

RESOLVED, that

1. A Nominations Sub Committee, of the Audit and Risk Management Committee, be established and the number and composition of its membership be agreed.
2. The Draft Terms of Reference at Appendix 1 be considered and approved.

3. Members of the Sub Committee be appointed at the first meeting of the Audit and Risk Management Committee, following the Annual Court of Common Council in April 2018.
4. The first meeting of the Sub Committee be convened for June 2018 at which Members will be asked to recommend, to the Grand Committee, the frequency of future meetings.

9. **RISK MANAGEMENT UPDATE**

The Committee considered a report of the Chamberlain, which provided Members with an update on the corporate and top red departmental risk registers, following review by the Chief Officer Risk Management Group (CORMG) and the Summit Group.

Members suggested that, for future reports, a new appendix be included identifying new risks, risks which where target dates had been missed (or worsened) or removed from the corporate risk register. However, Members were also mindful of risks staying red for too long and officers agreed to feed this back to CORMG.

Members agreed that the Committee's role in determining the inclusion of risks on to the corporate risk register was to "endorse" and not to "confirm" the decision of the Summit Group.

In respect of an issue raised during today's Risk Challenge Session, the Chairman reminded Members that the City Surveyor would be invited back to a further session, focussing on operational buildings and his desk top audit, rather than property investment (which had been the subject of his last session).

RESOLVED, That:

1. The addition of CR25 (GDPR Project Risk) be added to the Corporate Risk Register.
2. The other changes to both the corporate and top red departmental risk registers, as outlined in the report, be noted.

10. **DEEP DIVE RISK REVIEWS:**

11. **LOSS OF BUSINESS SUPPORT FOR THE CITY - CR02**

The Committee received a report of the Economic Development Director in respect of Corporate Risk CRO2 (Loss of Business Support for the City).

The Director of Economic Development advised that, whilst there would always be some flow of jobs away from the City, his team were focussed on balancing this with inward flow, ensuring losses were minimal and potential new markets

were being developed. Members accepted that there would be a 'slower burn' internationally and an immediate focus on European business.

Following an uplift of the Economic Development Team's resources after Brexit, a special Advisor for Asia had been appointed and the team were now able to focus more on preparing for overseas visits and ensuring that opportunities were followed up.

Members noted the challenges in respect of how the City might look in 20 years' time and the ways in which we might be doing business by then; i.e. robotics, artificial intelligence and the uncertainty as to which technologies and businesses would be driving the transformation. Future Immigration Policy was also key in terms of the expectations of future workforces in respect of salaries and career plans.

In response to a question about how Members of the Audit and Risk Management Committee might gain assurance of need v allocation; the Deputy Chamberlain advised that the Resource Allocation Sub and Policy and Resources Committees would shortly be asked to approve £570k for the Brussels Office and £2.7m for promoting the City. Members noted that future regulations were likely to be at a global, not European level and this would indicate where we need to direct resources to ensure strong relationships with key markets. The Trump Administration's Policy on Taxation was also likely to affect the City.

Members commended a very good report and agreed that the red risk rating gave assurance that it was being managed at the right level. Members also asked whether the 18<sup>th</sup> March 2018 target was too ambitious and how the likelihood and impact ratings had been arrived at? The Director advised that they had arisen following a debate at the Chief Officers' Risk Management Group (CORMG) and in response to the key dates for trade negotiations by the end of April this year. Members noted that, by this date, businesses should be confident about revisiting their investments. Furthermore, on-going work outside of Brexit would help with business planning and the wider global impact and might dictate a different target date. The Director accepted that this risk could have been rated red earlier and the mitigations could have been more visible in the appendix to the report. Members were further assured that the City Corporation were working in partnership with various UK industries and this collaboration would intensify over the next 2-3 years. Members agreed that this risk would always be deep amber, if not red, for the time being.

Members agreed that the City had always been able to reinvent itself and, with robust risk management, challenges were approached as opportunities. Members noted that despite the predicted 10,000 jobs moving out of London, they were not relocating to just any one or two locations and this was good news for the City.

RESOLVED, that - the report be noted.

## 12. POLICE FUNDING- CR23

The Committee received a report of the Chamberlain in respect of Corporate Risk CR23 (Police Funding). Members noted that the budget had been balanced, through the use of reserves, until 2018/19. Furthermore, whilst a £17m capital investment had relieved some pressures, a deficit of £4-5m would remain. The Assistant Commissioner (City of London Police (COLP)) asked Members to note particularly the efficiency strategies set out at paragraphs 9 and 10 in the report, following the Deloitte Review and Transformation Programme.

The Deputy Chamberlain advised that, working closely with the Commissioner, the budget for 2018/19 had been balanced, through the use of reserves, and this gave time to focus on 2019/20 and beyond. The Deputy Chamberlain had been to the first meeting of the Transformation Programme and commended the agenda content and the Police's commitment to the change programme and recognition of new ways of working.

Members noted how the nature of police work was changing, with more focus on cyber-crime and crime prevention and, whilst the Mayor of London's decision on Council Tax precepts for the Metropolitan Police did not apply to the City, decisions would be required at some stage on the business rate premium. The Commissioner advised that the COLP was seen as a leader in cyber-crime (which was overtaking conventional crime) and counter terrorism and investment would be required to maintain this status. In respect of strategic policing, aimed at national threats, the COLP had made a head start in providing an evidence base for directing funds in the future.

In response to a challenge to the speed of progress, the Assistant Commissioner advised that Deloitte's report had been received at the end of July 2017 and immediate steps had been taken to deliver quick wins and balance this year's budget. Members suggested that the balance of reserves was lower than desirable and the risk rating for the Medium Term Financial Strategy should reflect this. As far as possible, Members would also like to see evidence of efficiencies before taking decisions to redirect funds. The Assistant Commissioner accepted these comments and advised that certain priorities; i.e. security, could not always wait for formal approval and this was likely to be a moving target for some years. The Deputy Chamberlain advised Members that Home Office Policy supported the use of reserves in balancing Police Force budgets. The Deputy Chamberlain agreed that the risk ought to be reframed as a threat to medium term financial stability.

In respect of the target Police staff reduction to 410, the Assistant Commissioner advised that 12 posts had been deleted as part of the Transformation Programme and, whilst the target was reliant on IT changes, the Assistant Commissioner was confident of further reductions in staff numbers over the next few years. Members noted that, of the current 442 posts, 332 were engaged in front-line police support roles and not back-office administration.

RESOLVED, that:

1. The report be noted.
2. Members receive a further report, in July this year, focussed on the medium-term risks.

**13. INTERNAL AUDIT RECOMMENDATIONS FOLLOW UP**

The Committee received a report of the Head of Internal Audit and Risk Management which provided an update on progress with internal audit recommendations. Members noted that updates were now sought more frequently, only evidenced recommendations were accepted as implemented and the expectation of implementation by agreed target dates was being reinforced.

RESOLVED, that – the report be noted.

**14. QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**

There were no questions

**15. ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**

There were no items.

**16. EXCLUSION OF THE PUBLIC**

**RESOLVED:** That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part I of the Schedule 12A of the Local Government Act.

<b>Item No</b>	<b>Paragraph No</b>
18 – re Item 9 above	3

*At 3.50pm Members agreed to waive standing orders to continue with the business on the agenda until 4.15pm*

**17. NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**

There were no questions

**18. ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE COMMITTEE AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**

There were no items.

A discussion in respect of agenda item 9 (Risk Management Update) was held in non-public session.

**The meeting ended at 4.05 pm**

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Chairman

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**AUDIT AND RISK MANAGEMENT COMMITTEE – OUTSTANDING ACTIONS – FEBRUARY /MARCH 2018 UPDATE**

<b>Date Added</b>	<b>ITEM</b>	<b>Action</b>	<b>Officer responsible and target date</b>
23.5.2017	<b>INTERNAL AUDIT (GENERAL)</b>	<ol style="list-style-type: none"> <li>1. Action plan to distinguish <u>low, medium and high</u> priority risks and be more outward focussed.</li> <li>2. Chief Officers be invited to attend the Audit and Risk Management Committee where they had not provided an adequate explanation of delayed implementation.</li> <li>3. Audit report recommendations be linked to Chief Officers' objectives at their annual appraisals.</li> </ol>	<p><i>Head of Internal Audit and Risk Management</i></p> <p>1,2 &amp; 3 - On-going</p>
23.5.2017	<b>INTERNAL AUDIT CHARTER</b>	Cyber awareness to be more visible in all Internal Audit Reviews and suggested that this be more explicit in the Charter.	<p><i>Head of Internal Audit and Risk Management</i></p> <p>This will be actioned for all audits going forward. A section will be added to the Charter for the next review by the ARMC.</p>
23.5.2017	<b>HEAD OF INTERNAL AUDIT OPINION AND ANNUAL REPORT 2016/17</b>	<ol style="list-style-type: none"> <li>1. The numbers of greens, ambers and reds would give greater assurance than just stating the number of reds.</li> <li>2. Future opinion reports should include the quality of internal audit and coverage.</li> </ol>	<p><i>Head of Internal Audit and Risk Management</i></p> <p>To be included in the next HoIA Opinion in May 2018</p>

23.5.2017	<b>INTERNAL AUDIT PLAN 2017/18</b>	<ol style="list-style-type: none"> <li>1. review of significant areas every 3 years and an indication of the type of work which would be covered over the course of the year.</li> <li>2. Future reviews to include an analysis of efficiency and include resources and training.</li> </ol>	<p><i>Head of Internal Audit and Risk Management</i></p> <ol style="list-style-type: none"> <li>1. This will be actioned for the next Audit Plan.</li> <li>2. This will be considered as part of the forthcoming planning process.</li> </ol>
10.10.2017	<b>FIRE SAFETY</b>	The relevant Service Committees are due to receive a full update on this matter at their February Meetings.	<p><i>Director of Community and Children's Services</i></p> <p>On ARM Agenda for 6.3.18</p>
10.10.2017	<b>ROAD SAFETY</b>	Members asked for a report on the risk management aspects of Crossrail before it opens.	<p><i>Director of the Built Environment</i></p> <p>Further update when available.</p>
29.11.17	<b>STATUTORY OBLIGATIONS IN RESPECT OF SEIZED GOODS</b>	An External Member offered to raise this at the Police Performance and Resource Management Sub Committee on 1 February 2018.	<p>At the Sub Committee, Internal Audit provided a detailed analysis of the progress on each recommendation of the Police Seized Goods 2017-18 report.</p> <p>In particular, Internal Members noted the recommendation that the Property Procedure Manual should be amended to include the processes to follow in terms of the packaging of item types (such as cash) and the</p>

			transportation of seized property between locations has been completed with the manual updated for the implementation of Niche. There are some 17 recommendations related to seized goods and most of them are listed as being completed by 31 March 2018. Further progress can be followed up at the next meeting of the Sub Committee on 26 April 2018.
16.1.18	<b>COMMITTEE'S TERMS OF REFERENCE</b>	<ol style="list-style-type: none"> <li>1. A second Deputy Chairman, appointed from the External Membership of the Committee.</li> <li>2. An additional Member to the Audit and Risk Management Committee.</li> </ol>	<p><i>Town Clerk</i></p> <p>To go forward to Policy and Resources Committee and the Annual Meeting of the Court of Common Council in April 2018.</p>
16.1.18	<b>RISK MANAGEMENT UPDATES</b>	For future reports, a new appendix be included identifying new risks, risks where target dates had been missed (or worsened) or been removed from the corporate risk register.	<p><i>Corporate Risk Advisor</i></p> <p>Next Risk Update report due at May meeting.</p>
16.1.18	<b>RISK CHALLENGE SESSIONS – CITY SURVEYOR</b>	City Surveyor to be invited back to a further session, focussing on operational buildings and his desk top audit, rather than property investment.	<p><i>Corporate Risk Advisor</i></p> <p>Scheduled for 29 May 2018</p>



**Audit & Risk Management Committee - Work Programme**

			<b>6/3/18</b>	<b>29/5/18</b>	<b>17/7/18</b>
<b>Meeting dates:</b>	<b>28/11/17</b>	<b>16/1/18</b>	<b>Meeting with External Auditors in closed session</b>	<b>Meeting with Head of Internal Audit in closed session</b>	
<b>Financial Statements/External Audit</b>					
				Draft City Fund and Pension Fund Financial Statements	City Fund and Pension Fund Financial Statements  Bridge House Estates Financial Statements
<b>Internal Audit</b>					
	Internal Audit Update		Internal Audit Update	Head of Internal Audit Annual Opinion (Internal Audit Update)	Internal Audit Update
	External Quality Assessment update	Internal Audit Recommendation Follow-up		Internal Audit Recommendation Follow-up	Internal Audit Recommendation Follow-up
	Internal Audit Recommendation Follow-up		Internal Audit Plan for 2018/19		
			Internal Audit Charter/Strategy		

<b>Meeting dates:</b>	<b>28/11/17</b>	<b>16/1/18</b>	<b>6/3/18</b> <b>Meeting with External Auditors in closed session</b>	<b>29/5/18</b> <b>Meeting with Head of Internal Audit in closed session</b>	<b>17/7/18</b>
<b>Governance</b>					
			Annual Governance Statement Methodology	Annual Governance Statement 2017/18	
	Actions arising from Committee Effectiveness Survey			Election of Chairman and Deputy Chairman  Appointments to Police Performance and Resource Management Sub and ARM Nominations Sub Committees	
<b>Risk Management</b>					
	Risk Appetite	Risk Update	<u>Deep Dive</u> CR10 Adverse Political Consequences CR16 Information Security	Risk Update	Risk Update
	Deep Dive: IT Provision	Deep Dive: Police Funding	Fire Risk Update	Deep Dive TBC	Deep Dive TBC – Police Funding – Medium Term Financial Strategy?
			Police Programme Management - TBC		

<b>Meeting dates:</b>	<b>28/11/17</b>	<b>16/1/18</b>	<b>6/3/18</b> <b>Meeting with External Auditors in closed session</b>	<b>29/5/18</b> <b>Meeting with Head of Internal Audit in closed session</b>	<b>17/7/18</b>
<b>Anti-fraud and Corruption</b>					
	Anti-Fraud Investigations Update			Anti-Fraud Investigations Update	
<b>External Inspections</b>					
<b>Risk Challenge Sessions</b>					
	City Surveyor	Mansion House	City of London Girls' School	City Surveyor (Operational Property)	TBC

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<b>Committee(s)</b>	<b>Dated:</b>
Audit and Risk Management Committee	6/03/2018
<b>Subject:</b> CR10: Adverse Political Developments	<b>Public</b>
<b>Report of:</b> Remembrancer	<b>For Information</b>
<b>Report author:</b> Paul Double	

## Summary

Corporate Risk CR10 relates to political developments that might damage the future status and functioning of the City Corporation. This report provides an update to Members on the steps being taken to mitigate the risk.

**Recommendation:** Members are invited to note the report.

## Main Report

### Background

1. The City Remembrancer is responsible for Corporate Risk 10 (CR10) – adverse political developments undermining the effectiveness of the City of London Corporation. Adverse political developments may arise from causes from specific financial services issues to local government proposals, or may stem from general political hostility.
2. Current political issues or events that could give rise to adverse developments include the consequences for the financial sector of the referendum on the UK's membership of the EU or the results of the London local government elections in May.
3. This report provides Members with an update of recent activity to mitigate the risk.

### Current risk status

4. The risk status is currently amber. In reviewing this status, the effect of a number of political developments has been considered. These include the impact of the Brexit negotiations; issues about the way some parts of the financial sector operate; the increased complexity of political coordination in

London that may arise as a result of the forthcoming local government elections; and wider party political developments at a national level. The Green Party is currently the only national party to be committed to the abolition of the City Corporation. In the result it is proposed that the risk status be maintained at amber.

## **Current activity**

5. All Government legislation is examined and, where required to meet the City's needs or concerns, drafting issues are pursued with officials. Amendments to Bills are tabled as necessary in either House. Frequent contributions are made to the proceedings of the Commons' and Lords' Select Committees and regular briefings for debates are provided to MPs and Peers.
6. Priority has been given to work on the European Union (Withdrawal) Bill. During the Commons' stages of the Bill, a number of amendments developed by the City Corporation, informed by a variety of sources, but particularly by the work of the International Regulatory Strategy Group, were tabled by Justice Select Committee Chair, Bob Neill MP. The intention of these amendments was not to rerun the Brexit debate or to force parliamentary votes, but to improve the legislation and address issues of concern to the Corporation and the wider City. All the amendments were selected for debate. The Government's response indicated an openness to dialogue, and issues that were the subject of two of the amendments (on the use of official EU materials to aid interpretation of the domesticated EU law post-Brexit and on funding of inspection requirements for imported foodstuffs through the Port of London) were resolved. Discussions on other questions dealt with, such as interpretation of commercial contracts, are continuing. A Clause dealing with mutual market access for financial services is being developed for debate at Committee stage in the House of Lords.
7. In addition to work on the European Union (Withdrawal) Bill, the Office's legislative activity over the previous 12 months has included scrutiny of, and briefings on, the Data Protection Bill, Trade Bill, Sanctions and Anti-Money Laundering Bill, Financial Guidance and Claims Bill, and Taxation (Cross-Border Trade) Bill.
8. The City of London Corporation (Open Spaces) Bill is nearing its conclusion in the House of Lords having already completed its Commons Stages. It should conclude its Parliamentary passage before Easter. Provisions which may form the basis of future City Corporation promoted legislation are under examination.
9. The wide ranging work of the Corporation has been evidenced through submissions to a number of select committee inquiries, including the Home Affairs Select Committee's inquiry into online fraud; the Treasury Committee's inquiry into the UK's economic relationship with the European Union; the Lords EU Energy and Environment Sub-Committee's inquiry into Brexit and port health; the Environmental Audit Committee's inquiry into green finance; and the Environment, Food and Rural Affairs Committee-led inquiry into air quality.

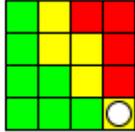
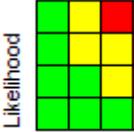
10. In liaison with the Corporate Affairs team, and working closely with Departments across the Corporation, the Office has maintained an active programme of engagement with MPs and peers through briefings on matters of interest to the City, including skills and employment, industrial strategy, financial inclusion, financial services regulation, social mobility and the Commonwealth.
11. The Office has maintained its engagement with the GLA, briefing officers and Members of the London Assembly on matters of interest to the City, including on the City's position on Brexit, the Corporation's proposals for a new court centre, protective infrastructure on the City's bridges, and the work of the City Police. Evidence has been submitted to several Mayoral and Committee consultations, including consultations on the Night Time Economy, the Good Work Standard, and the draft London Housing Strategy, and an Economy Committee inquiry into financial inclusion.
12. Following the Government's decision not to reintroduce the Local Government Finance Bill after the general election, the Office has continued to work with the Chamberlain's Department to analyse and report on initiatives for fiscal devolution in London. This led to the submission of a joint report recommending 'in principle' support for a proposed pilot scheme for business rates devolution, drawn up by London Councils and the GLA. This has now been introduced.
13. The Office also seeks to mitigate the corporate risk more generally by promoting the work of the City Corporation in supporting broader interests. These include cultural activities, open spaces, policing, housing and education. Regular contact is maintained with those who advise on and influence policy both at a national and at a local level, designed to ensure that the City's perspective is understood and acknowledged as early as possible in the policy development process. The Office works with the Economic Development Office, the Communications team and Mansion House, and with other departments depending on the nature of the issue.
14. As part of the package agreed last year by the Policy and Resources Committee in response to the Brexit issue, the Office has recruited an additional member of the Parliamentary team to focus on Parliamentary engagement. This has enabled additional resource to be applied in arranging Select Committee involvement by the Lord Mayor on trade promotion, the Policy Chairman on policy issues, and senior officers of the City of London Police on policing and crime issues, and in increasing liaison with Parliamentary staff.

## **Conclusion**

15. Members are asked to note the actions taken and activities under way to mitigate Corporate Risk 10.

Paul Double  
City Remembrancer

REM – Corporate Risk 10

Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date	Current Risk score change indicator
<p><b>CR10 Adverse Political Developments</b></p> <p>22-Sep-2014 Paul Double</p>	<p><b>Cause:</b> Policy issues that may compromise the City’s operation as an international financial marketplace to which the City Corporation’s functions are aligned; other financial services issues that make the City Corporation vulnerable to political criticism; local government proposals that call into question the justification for the separate administration of the Square Mile; overarching political hostility.</p> <p><b>Event:</b> Changes in international relationships particularly those with the EU; reputational questions related to financial institutions; local government changes in London; political hostility to the Corporation.</p> <p><b>Impact:</b> Damage to the City's ability to put its case nationally and internationally and to the City’s standing as a dedicated international financial marketplace. The City of London Corporation would be compromised if the City's position as a world leading financial and professional services centre were undermined.</p>	<p>Likelihood</p>  <p>Impact</p>	8	<p>Constant attention is given to the form of legalisation affecting the City Corporation and the broader City, and any remedial action pursued. Making known the work of the City Corporation in the financial sphere among opinion formers, particularly in Parliament and central Government, is also part of the apparatus by which the City’s voice is heard and by which the Corporation is seen to be “doing a good job” for London and the nation for a crucial sector of the economy; the Brexit issue is the foremost consideration at present time. The same approach is replicated in respect of the Corporation’s other activities.</p> <p><b>23 Feb 2018</b></p>	<p>Likelihood</p>  <p>Impact</p>	8	31-Dec-2018	↔
<b>Action</b>	<b>Description</b>	<b>Latest Note</b>				<b>Managed By</b>	<b>Latest Note Date</b>	<b>Due Date</b>
CR10a	Monitoring of Government legislation and proposed regulatory changes.	Relevant Bills in the Government's legislative programme will be identified, and City Corporation departments alerted to issues of potential significance as the measures are introduced in the new Session. Action taken through negotiation with departmental officials or amendments tabled in Parliament as required. The legislative consequences of Britain leaving the EU as they may affect the Corporation and the City more generally as an international financial centre are a particular focus.				Paul Double	23-Feb-2018	31-Dec-2018
CR10b	Provision of information to Parliament and Government on issues of importance to the City.	Briefing has been provided for parliamentary debates including on Brexit, air quality, immigration, housing, planning, the creative industry, trade and investment, apprenticeships, economic crime, Fintech and broadband.				Paul Double	23-Feb-2018	31-Dec-2018
CR10c	Engagement with key opinion informers in Parliament and elsewhere. Programme of work to monitor and respond to issues affecting the reputation of the City Corporation.	Liaison with the City's MP and other MPs, Peers and Select Committee of both Houses on matters of importance to the City, including increased engagement on Brexit-related issues. Working with other organisations, including the Financial Markets Law Committee, to analyse the legal framework following exit from the EU. Continuing engagement on devolution in London and liaison with London Councils and Central London Forward on the application of devolution to the London boroughs and the City, either directly from Central Government or the Mayor.				Paul Double	23-Feb-2018	31-Dec-2018

<b>Committee(s)</b>	<b>Date:</b>
Audit and Risk Management	<b>6 March 2018</b>
<b>Subject:</b> Deep Dive: CR 16 Information Security Risk	<b>Public</b>
<b>Report of:</b> Chamberlain	<b>For Information</b>
<b>Report author:</b> Gary Brailsford-Hart ,Director of Information & Chief Information Security Officer	

## Summary

The generally accepted definition of a data breach is a security incident in which sensitive, protected or confidential data is copied, transmitted, viewed, stolen or used by an individual authorized to do so.

CR16 was developed as means to capture and mitigate the risks a 'cyber breach' would present to the City Corporation. It is evident that dependent on the nature of the breach the impact can vary from very low to critical. Cyber threat is often viewed as a complex, dynamic and highly technical risk area. However, what is often at the root of a breach is a failure to get the basics right, systems not being patched, personnel not maintaining physical security, suppliers given too much information.

The National Cyber Security Centre (NCSC) 10 Steps to Cyber Security framework has been adopted to strengthen the controls in this risk area; this framework is now used by the majority of the FTSE350. The control scores are currently low and are reflective of the early phase of adoption across the City Corporation, the risk areas are actively monitored and risk managed. Scores will increase as improvements to people, process and technology are delivered throughout the year. The risk management plan is on target to deliver appropriate controls by the April 2018 review point.

## Recommendation(s)

Members are asked to:

- Note the report.

## **Main Report**

### **Background**

1. Cyberspace has revolutionised how many of us live and work. The internet, with its more than 3 billion users, is powering economic growth, increasing collaboration and innovation, and creating jobs.
2. Protecting key information assets is of critical importance to the sustainability and competitiveness of businesses today. The City Corporation needs to be on the front foot in terms of our cyber preparedness. Cyber security is all too often thought of as an IT issue, rather than the strategic risk management issue it actually is.
3. Corporate decision making is improved through the high visibility of risk exposure, both for individual activities and major projects, across the whole of the City Corporation.
4. Providing financial benefit to the organisation through the reduction of losses and improved “value for money” potential.
5. The City Corporation is prepared for most eventualities, being assured of adequate contingency plans. We have therefore adopted the NCSC Ten Steps to Cyber Security framework to assist and support our existing strategic-level risk discussions, specifically how to ensure we have the right safeguards and culture in place.
6. The creation of CR16, Appendix 1, demonstrates the City Corporations commitment to the identification and management of this risk area.

### **Current Position**

7. The development and implementation of an Information Security Management System (ISMS) was seen as an essential requirement to permit the measurement and assurance of the CR16 risk. A number of frameworks were considered, and the NCSC Ten Steps to Cyber Security framework, supported by the NCSC 20 Critical Security Controls, was chosen as the most appropriate for the City Corporation.
8. To provide a deep dive of CR16 the current compliance with the HMG Ten Steps assurance programme is detailed below (table 1) under each of the ten steps areas. The control scores are improving and are embedding across the City Corporation, the risk areas are actively monitored and risk managed. Scores will continue to increase as improvements to people, process and technology are delivered as part of the continuous improvement process. We are currently on track to deliver mitigation controls by April 2018 and place the risk in Amber. Furthermore, as the controls are matured the expectation is for this risk to become Green by July 2018. Further detail is provided at appendix 2.

Table 1 - HMG Ten Steps assurance for the City Corporation as at February 2018

Ten Steps - Control Area	% Complete	Target Score	Actual Score
1. Information Risk Management	61%	4	3
2. Network Security	55%	4	2
3. Malware Prevention	57%	4	2
4. Monitoring	25%	4	1
5. Incident Management	75%	4	3
6. Managing User Privileges	54%	4	2
7. Removable Media Controls	46%	4	2
8. Secure Configuration	68%	4	3
9. Home and Mobile Working	36%	4	2
10. User Education and Awareness	46%	4	2

### Options

9. Endorsement and support for the management and delivery of CR16 risk management plan has been obtained directly from chief officers as well as strategically via papers to Summit Group, IT Sub and Finance Committees.

### Proposals

10. Continue to implement the 10 steps programme across the City Corporation.

### Corporate & Strategic Implications

11. The City Corporation operates across multiple channels in multiple disciplines the common activity is the collection and processing of data into information. This information has a value, and we need to ensure we take appropriate and proportionate measures to ensure its security.
12. A recent FoI request across all UK local authorities highlighted that there have been in excess of 98 million cyber attacks over 5 years. This means that there are at least 37 attempted breaches of UK local authorities every minute. In addition, at least 1 in 4 councils experienced a cyber security incident – that is, an actual security breach - between 2013 – 2017.
13. The City Corporation has not been immune to these activities and has suffered a number of cyber related security incidents over the past year. So far, the majority of these incidents have been minor in nature and easily managed locally.

## **Implications**

14. Failure to demonstrate appropriate controls in this risk area will expose the City Corporation to unacceptable levels of risk and could hinder a number of strategic objectives.
15. There are also a number of statutory requirements to consider for the management of this risk area (for example: Data Protection, Freedom of Information, Human Rights Act etc.,)

## **Health Implications**

16. There are no health risks to consider as part of this report.

## **Conclusion**

17. There is an extensive programme of work underway to mitigate the risks identified within CR16. This deep dive report articulates the work in progress and clearly identifies where we will be directing continuing effort to manage this risk to an acceptable level.
18. The breadth and scope of the necessary controls are cross-organisational and should not be entirely seen as a technical issue to be solved by the IT department. For example if users leave the door open and their computers logged on then technical controls cannot in themselves defend the organisation.
19. The realisation of this risk would certainly have a severe impact on technical systems and directly impact the operational effectiveness of potentially the entire City Corporation. It is therefore imperative that the underlying issue of developing a security culture is supported through the delivery of risk controls for CR16. There is positive support for this work across the organisation and senior management understand and are supportive of the necessary changes to ensure the City Corporation's security.
20. It is important to note that whilst we will be shortly moving the CR16 risk to Green, it will only remain so with the continued operation and maintenance of the controls being put in place to manage it and should not therefore be considered a one-off exercise.

## **Appendices**

- Appendix 1 – CR16 Information Security
- Appendix 2 – 10 Steps to Cyber Security Dashboard & Breakdown

## **Gary Brailsford-Hart**

Director of information & Chief Information Security Officer

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APPENDIX 1: CR16 Information Security

CHB Detailed risk register by risk category

Report Author: Hayley Hajduczek

Generated on: 23 January 2018



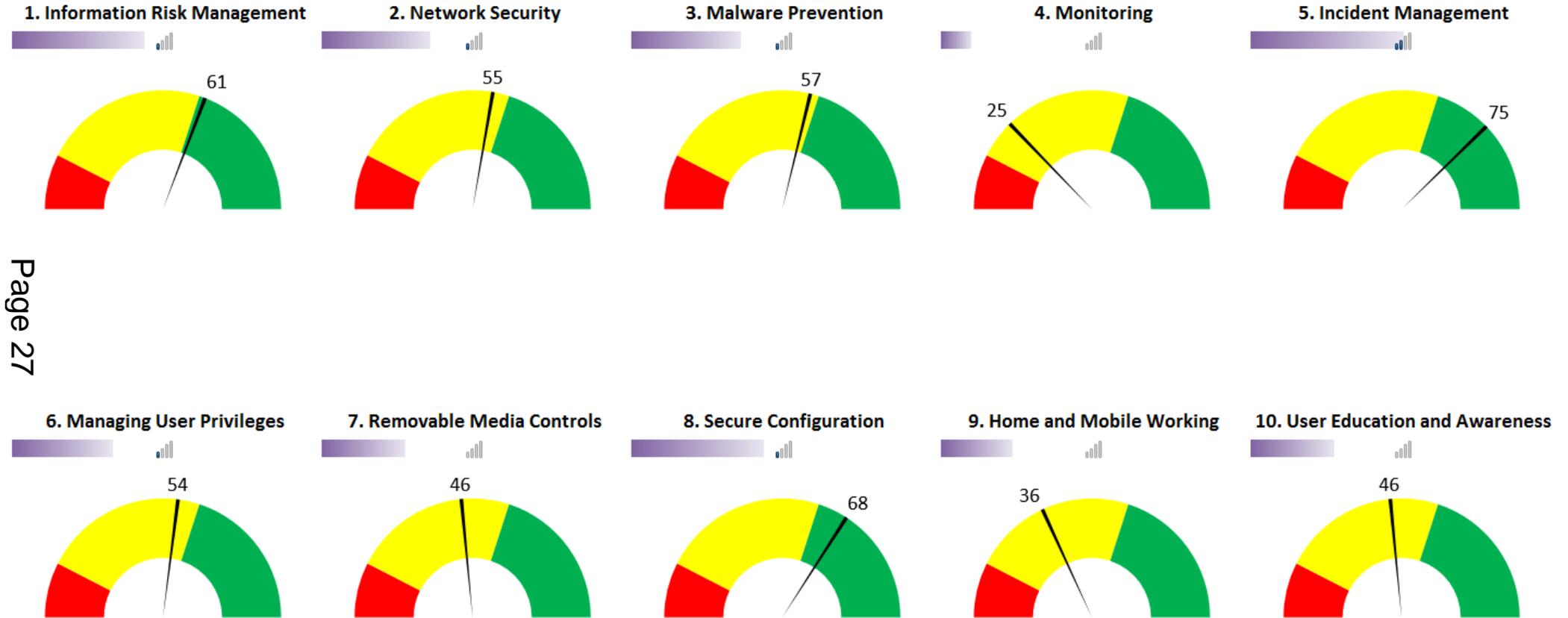
Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score	Risk Update and date of update	Target Risk Rating & Score	Target Date	Current Risk score change indicator		
CR16 Information Security Page 25	<p><b>Cause:</b> Breach of IT Systems resulting in unauthorised access to data by internal or external sources.</p> <p>Officer/ Member mishandling of information.</p> <p><b>Event:</b> Cybersecurity attack - unauthorised access to COL IT systems. Loss or mishandling of personal or commercial information.</p> <p><b>Effect:</b> Failure of all or part of the IT Infrastructure, with associated business systems failures.</p> <p>Harm to individuals, a breach of legislation such as the Data Protection Act 1988. Incur a monetary penalty of up to £500,000. Compliance enforcement action. Corruption of data. Reputational damage to Corporation as effective body.</p>		16	<p>Work is continuing to complete the implementation of the action plan. Patching of equipment and decommissioning aged and vulnerable equipment has been completed.</p> <p>Following key tasks have now been completed:</p> <ul style="list-style-type: none"> <li>• Patching regime reviewed;</li> <li>• Vulnerability assessment completed;</li> </ul>		8	30-Apr-2018	

22-Sep-2014				<ul style="list-style-type: none"> <li>• Incident management exercise;</li> <li>• Additional security awareness material purchased.</li> </ul>				
Peter Kane				<b>02 Jan 2018</b>				

Action no, Action owner	Description	Latest Note	Managed By	Latest Note Date	Due Date
CR16b	For all major systems establish data owner and retention policy for information therein.	This is now being picked up with the GDPR ready project being led from the Comptroller team and IT team in the Corporation and the Information Management and Security team in the Police. Update reports on progress provided to Summit and IT Sub-Committee on a regular basis.	Sean Green	02-Jan-2018	30-Apr-2018
CR16h	Online training to be made available to Members following workshop in February 2016.	Induction training provided - Gary Brailsford Hart is supporting this risk to execute mitigating actions from plan in place. Training for Officers and Members in 2018 now being developed.	Gary Brailsford-Hart	02-Jan-2018	30-Apr-2018
CR16i	The Development and implementation of more technical security infrastructure	Using a recognised Cyber security maturity model there is a dashboard being reported that shows via RAG status 10 areas of focus to mitigate this risk with training, processes and tools being delivered that in combination will bring the risk to Amber as planned and Green by July 2018.	Sean Green	02-Jan-2018	30-Apr-2018

Appendix 2: 10 Steps to Cyber Security: Dashboard & Breakdown

# 10 Steps to Cyber Security: Dashboard



## 1 – Information Risk Management

Taking risk is a necessary part of doing business in order to create opportunities and help deliver business objectives. For the City Corporation to operate successfully it needs to address risk and respond proportionately and appropriately to a level which is consistent with what risks it is willing, or not, to tolerate. If we do not identify and manage risk it can lead to business failure.

The lack of an effective risk management and governance structure may lead to the following:

- **Exposure to risk:** Without effective governance processes the Board will be unlikely to understand and manage the overall risk exposure of the organisation.
- **Missed business opportunities:** Risk decisions taken within a dedicated security function, rather than organisationally, will be motivated by achieving high levels of security. This may promote an overly cautious approach to risk leading to missed business opportunities or additional cost.
- **Ineffective policy implementation:** The board has overall ownership of the corporate security policy. Without effective risk management and governance processes the Board won't have confidence that its stated policies are being consistently applied across the business as a whole.

Control Measures:

	% Complete	Target Score	Actual Score
<b>Information Risk Management</b>	<b>61%</b>	<b>4</b>	<b>3</b>
Establish a governance framework	100%	4	4
Determine the organisation's risk appetite	25%	4	2
Maintain the Board's engagement with information risk	100%	4	4
Produce supporting policies	100%	4	4
Adopt a lifecycle approach to information risk management	100%	4	4
Apply recognised standards	50%	4	3
Make use of endorsed assurance schemes	75%	4	3
Educate users and maintain their awareness	0%	4	0
Promote a risk management culture	0%	4	0

## 2 - Network Security

Networks need to be protected against both internal and external threats. If the City Corporation fails to protect the networks appropriately we could be subject to a number of risks, including:

- **Exploitation of systems:** Ineffective network design may allow an attacker to compromise systems that perform critical functions, affecting the City Corporation's ability to deliver essential services or resulting in severe loss of customer or user confidence.
- **Compromise of information:** A poor network architecture may allow an attacker to compromise sensitive information in a number of ways. They may be able to access systems hosting sensitive information directly or perhaps allow an attacker to intercept poorly protected information whilst in transit (such as between your end user devices and a cloud service).
- **Import and export of malware:** Failure to put in place appropriate security controls could lead to the import of malware and the potential to compromise business systems. Conversely users could deliberately or accidentally release malware or other malicious content externally with associated reputational damage.
- **Denial of service:** Internet-facing networks may be vulnerable to Denial Of Service (DOS) attacks, where access to services and resources are denied to legitimate users or customers.
- **Damage or defacement of corporate resources:** Attackers that have successfully compromised the network may be able to further damage internal and externally facing systems and information (such as defacing your organisation's websites, or posting onto your social media accounts), harming the organisation's reputation and customer confidence.

Control Measures:

	% Complete	Target Score	Actual Score
<b>Network Security</b>	<b>55%</b>	<b>4</b>	<b>2</b>
Police the network perimeter	50%	4	2
Install firewalls	100%	4	4
Prevent malicious content	75%	4	3
Protect the internal network	80%	4	3
Segregate network as sets	0%	4	0
Secure wireless devices	100%	4	4
Protect internal IP addresses	0%	4	0
Enable secure administration	25%	4	2
Configure the exception handling process	75%	4	3
Monitor the network	0%	4	0
Assurance process	100%	4	4

### 3 - Malware Prevention

Malware infections can cause material harm to our systems. This might include disruption of business services, unauthorised export of sensitive information or loss of access to critical data (eg caused by ransomware). The range, volume and source of information exchanged (as well as the technologies used) provide a range of opportunities for malware to be imported. Examples include:

- **Email:** Email still provides a primary path for internal and external information exchange. Malicious email attachments can cause their payload to be executed when the file is opened or otherwise processed. Email with malicious content may be specifically targeted at known individuals (known as spear phishing) with access to sensitive information, or at roles with elevated privileges. Alternatively malicious email may include embedded links that direct users to websites hosting malicious content.
- **Web browsing:** Users could browse (or be directed to) websites that may contain malicious content which seeks to compromise applications (such as the browser) that interact with that content
- **Web services:** User access to social media and other web based services could provide an ability for users to import a variety of data formats
- **Removable media and personally owned devices:** Malware can be transferred to a corporate system through the uncontrolled introduction of removable media or the direct connection of untrusted devices. This might include (for example) connecting a smartphone via a USB port, even if intended only to charge the device.

Control Measures:

	% Complete	Target Score	Actual Score
<b>Malware Prevention</b>	<b>57%</b>	<b>4</b>	<b>2</b>
Develop and implement anti-malware policies	50%	4	2
Manage all data import and export	50%	4	2
Blacklist malicious web sites	100%	4	4
Provide detailed media scanning machines	25%	4	1
Establish malware defences	75%	4	3
End user device protection	50%	4	2
User education and awareness	50%	4	2

## 4 - Monitoring

Monitoring provides the means to assess how systems are being used and whether they are being attacked. Without the ability to monitor your systems you may not be able to:

- **Detect attacks:** Either originating from outside the organisation or attacks as a result of deliberate or accidental user activity. Attacks may be directly targeted against technical infrastructure or against the services being run. Attacks can also seek to take advantage of legitimate business services, for example by using stolen credentials to defraud payment services.
- **React to attacks:** An effective response to an attack depends upon first being aware that an attack has happened or is taking place. A swift response is essential to stop the attack, and to respond and minimise the impact or damage caused.
- **Account for activity:** You should have a complete understanding of how systems, services and information are being used by users. Failure to monitor systems and their use could lead to attacks going unnoticed and/or non-compliance with legal or regulatory requirements.

Control Measures:

	% Complete	Target Score	Actual Score
<b>Monitoring</b>	<b>25%</b>	<b>4</b>	<b>1</b>
Establish a monitoring strategy and supporting policies	0%	4	0
Monitor all ICT systems	25%	4	1
Monitor network traffic	25%	4	1
Monitor all user activity	25%	4	1
Fine-tune monitoring systems	25%	4	1
Establish a centralised collection and analysis capability	25%	4	1
Provide resilient and synchronised timing	100%	4	4
Align the incident management policies	0%	4	0
Conduct a lessons learned review	0%	4	0

## 5 - Incident Management

Security incidents will inevitably happen and they will vary in their level of impact. All incidents need to be managed effectively, particularly those serious enough to warrant invoking the City Corporation's business continuity or disaster recovery plans. Some incidents can, on further analysis, be indicative of more severe underlying problems.

If the City Corporation fails to implement an incident management capability to detect, manage and analyse security incidents the following risks could be realised:

- **Managing business harm:** Failure to realise that an incident is happening or has occurred limits your ability to manage it effectively. This may lead to a much greater overall business impact, such as significant system outage, serious financial loss or erosion of public confidence.
- **Continual disruption:** An organisation that fails to address the root cause of incidents (such as poor technology or weaknesses in the corporate security approach) could be exposed to repeated or continual compromise or disruption.
- **Failure to comply with legal and regulatory reporting requirements:** An incident resulting in the compromise of sensitive information covered by mandatory reporting requirements could lead to legal or regulatory penalties.

The City Corporation's business role determines the type and nature of incidents that could occur and the impact they might have, so a risk-based approach is being used to shape incident management plans.

Control Measures:

	% Complete	Target Score	Actual Score
<b>Incident Management</b>	<b>75%</b>	<b>4</b>	<b>3</b>
Obtain senior management approval	100%	4	4
Provide specialist training	75%	4	3
Define the required roles and responsibilities	75%	4	3
Establish a data recovery capability	75%	4	3
Test the incident management plan	75%	4	3
Decide what information will be shared and with whom	25%	4	1
Collect and analyse post-incident evidence	75%	4	3
Conduct a lessons learned review	75%	4	3
Educate users and maintain their awareness	75%	4	3
Report criminal incidents to law enforcement	100%	4	4

## 6 - Managing User Privileges

The City Corporation needs to understand what level of access employees need to information, services and resources in order to do their job otherwise it won't be possible to manage rights appropriately. Failure to effectively manage user privileges could result in the following risks being realised:

- **Misuse of privileges:** Users could either accidentally or deliberately misuse the privileges assigned to them. This may result in unauthorised access to information to either the user or a third party or to unauthorised system changes having a direct security or operational impact.
- **Increased attacker capability:** Attackers may use redundant or compromised user accounts to carry out attacks and, if able, they may return to reuse the compromised account or possibly sell access to others. The system privileges provided to the original user of the compromised account will be available to the attacker to use which is why they particularly seek to gain access to highly privileged or administrative accounts.
- **Negating established security controls:** Where attackers have privileged system access they may make changes to security controls to enable further or future attack or might attempt to cover their tracks by making changing or audit logs.

Control Measures:

	% Complete	Target Score	Actual Score
<b>Managing User Privileges</b>	<b>54%</b>	<b>4</b>	<b>2</b>
Establish effective account management processes	100%	4	4
Establish policy and standards for user identification and access control	75%	4	3
Limit user privileges	75%	4	3
Limit the number and use of privileged accounts	50%	4	2
Monitor	25%	4	1
Limit access to the audit system and the system activity logs	25%	4	1
Educate users and maintain their awareness	25%	4	1

## 7 - Removable Media Controls

Removable media introduces the capability to transfer and store huge volumes of sensitive information as well as the ability to import malicious content. The failure to manage the import and export of information using removable media could expose the City Corporation to the following risks:

- **Loss of information:** Removable media is very easily lost, which could result in the compromise of large volumes of sensitive information stored on it. Some media types will retain information even after user deletion, placing information at risk where the media is used between systems (or when the media is disposed of)
- **Introduction of malware:** The uncontrolled use of removable media can increase the risk of introducing malware to systems.
- **Reputational damage:** The loss of media can result in significant reputational damage, even if there is no evidence of any specific data loss.

Control Measures:

	% Complete	Target Score	Actual Score
<b>Removable Media Controls</b>	<b>46%</b>	<b>4</b>	<b>2</b>
Produce corporate policies	50%	4	2
Limit the use of removable media	50%	4	2
Scan all media for malware	75%	4	3
Formally issue media to users	75%	4	3
Encrypt the information held on media	0%	4	0
Actively manage the reuse and disposal of removable media	25%	4	1
Educate users and maintain their awareness	50%	4	2

## 8 - Secure Configuration

Establishing and actively maintaining the secure configuration of systems should be seen as a key security control. Systems that are not effectively managed will be vulnerable to attacks that may have been preventable. Failure to implement good configuration and patch management can lead to the following risks:

- **Unauthorised changes to systems:** The protections you believe you have in-place may be changed by unauthorised individuals, either internal or external, leaving information at risk.
- **Exploitation of software bugs:** Attackers will attempt to exploit unpatched systems to provide them with unauthorised access to system resources and information. Many successful attacks exploit vulnerabilities for which patches have been issued but not applied.
- **Exploitation of insecure system configuration:** An attacker could exploit a system that has been poorly configured by:
  - gaining access to information they are not authorised to see
  - taking advantage of unnecessary user rights or system privilege
  - exploiting unnecessary functionality that has not been removed or disabled
  - connecting unauthorised equipment that is then able to compromise information or introduce malware
  - creating a back door to use in the future for malicious purposes

Control Measures:

	% Complete	Target Score	Actual Score
<b>Secure Configuration</b>	<b>68%</b>	<b>4</b>	<b>2</b>
Use supported software	80%	4	3
Develop and implement corporate policies to update and patch systems	100%	4	4
Create and maintain hardware and software inventories	80%	4	3
Manage your operating systems and software	75%	4	3
Conduct regular vulnerability scans	50%	4	2
Establish configuration control and management	50%	4	2
Disable unnecessary peripheral devices and removable media access	75%	4	3
Implement white-listing and execution control	0%	0	0
Limit user ability to change configuration	100%	4	4

## 9 - Home and Mobile Working

Mobile working and remote access extends the transit and storage of information (or operation of systems) outside of the corporate infrastructure, typically over the Internet. Mobile devices will also typically be used in spaces that are subject to additional risks such as oversight of screens, or the theft/loss of devices. If the City Corporation does not establish sound mobile working and remote access practices we might be vulnerable to the following risks:

- **Loss or theft of the device:** Mobile devices are highly vulnerable to being lost or stolen, potentially offering access to sensitive information or systems. They are often used in open view in locations that cannot offer the same level of physical security as your own premises.
- **Being overlooked:** Some users will have to work in public open spaces, such as on public transport, where they are vulnerable to being observed when working. This can potentially compromise sensitive information or authentication credentials.
- **Loss of credentials:** If user credentials (such as username, password, or token) are stored with a device used for remote working or remote access and it is lost or stolen, the attacker could use those credentials to compromise services or information stored on (or accessible from) that device.
- **Tampering:** An attacker may attempt to subvert the security controls on the device through the insertion of malicious software or hardware if the device is left unattended. This may allow them to monitor all user activity on the device, including authentication credentials.

Control Measures:

	% Complete	Target Score	Actual Score
<b>Home and Mobile Working</b>	<b>36%</b>	<b>4</b>	<b>2</b>
Asses the risks and create a mobile working security policy	0%	4	0
Educate users and maintain their awareness	0%	4	0
Apply the security baseline	75%	4	3
Protect data at rest	100%	4	4
Protect data in transit	75%	4	3
Review the corporate incident management plans	0%	4	0

## 10 - User Education and Awareness

Users have a critical role to play in helping to keep the City Corporation secure, but they must also be able to effectively do their jobs. If we do not effectively support employees with the right tools and awareness we are vulnerable to the following risks:

- **Removable media and personally owned devices:** Without clearly defined and usable policies on the use of removable media and personally owned devices, staff may connect devices to the corporate infrastructure that might lead to the inadvertent import of malware or compromise of sensitive information
- **Legal and regulatory sanction:** If users are not aware and supported in how they handle particular classes of sensitive information, the City Corporation may be subject to legal and regulatory sanction
- **Incident reporting culture:** Without an effective reporting culture there will be poor dialogue between users and the security team. This is essential to uncovering near misses and areas where technology and processes can be improved, as well as reporting actual incidents.
- **Security Operating Procedures:** If security operating procedures are not balanced to support how users perform their duties, security can be seen as a blocker and possibly ignored entirely. Alternatively, if users follow the procedures carefully this might damage legitimate business activity.
- **External attack:** Since users have legitimate system accesses and rights, they can be a primary focus for external attackers. Attacks such as phishing or social engineering attempts rely on taking advantage of legitimate user capabilities and functions.
- **Insider threat:** Changes over time in an employee's personal situation could make them vulnerable to coercion, and they may release personal or sensitive commercial information to others. Dissatisfied employees may try to abuse their system level privileges or coerce other employees to gain access to information or systems to which they are not authorised. Equally, they may attempt to steal or physically deface computer resources.

Control Measures:

	% Complete	Target Score	Actual Score
<b>User Education and Awareness</b>	<b>46%</b>	<b>4</b>	<b>2</b>
Produce a user security policy	50%	4	2
Establish a staff induction process	25%	4	1
Maintain user awareness of the cyber risks faced by the organisation	50%	4	2
Support the formal assessment of Information Assurance (IA) skills	50%	4	2
Monitor the effectiveness of security training	25%	4	1
Promote an incident reporting culture	50%	4	2
Establish a formal disciplinary process	75%	4	3

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<b>Committee(s)</b>	<b>Dated:</b>
Barbican Residential Committee Audit and Risk Management Committee	19 March 2018 6 March 2018
<b>Subject:</b> Fire Safety Update	<b>Public</b>
<b>Report of:</b> Director of Community & Children's Services	<b>For Information</b>
<b>Report author:</b> Paul Murtagh Assistant Director Barbican & Property Services	

## Summary

The purpose of this report is to update Members on the progress that has been made in relation to fire safety matters since the last update reports submitted to Committee in September and November 2017.

## Recommendation

Members are asked to note, consider and comment on the report.

## Main Report

### Background

1. Following the tragic fire at Grenfell Tower in West London on 14 June 2017, which killed at least 80 people, concerns were, understandably, raised by City Corporation Members and residents about the safety of our homes and the possibility of a similar incident in one of our tower blocks.
2. In September 2017, a detailed report was brought to this Committee to update Members on the City Corporation's approach to fire safety on the Barbican Estate and, following the tragic fire at Grenfell Tower, to inform Members on the subsequent actions taken by the City Corporation. This report outlined:
  - Fire safety measures in place prior to the Grenfell Tower fire;
  - Our immediate response to the Grenfell Tower fire;
  - The next phase of work to be undertaken;
  - Issues for consideration for possible future inclusion in programmes of work.

3. An update report was brought back to Committee in November 2017 and this paper is intended as a further update.

### **Fire Risk Assessments**

4. Frankham Risk Management Services Limited has been commissioned to carry out new Fire Risk Assessments (FRA's) for each of our residential blocks including those on the Barbican. These new FRA's will be very detailed and will cover not only those areas previously inspected, but also any further concerns raised since the Grenfell Tower fire.
5. Previous FRA's carried out on Barbican have been Type 1 FRA's as required by legislation. The new FRA's are Type 3, which go beyond the requirements of the Regulatory Reform (Fire Safety) Order 2005, covering all that is required for a Type 1 FRA but also providing for an assessment of the arrangements for means of escape and fire detection (i.e. smoke alarms) within a sample of the properties (typically around 10%). A Type 3 FRA is a non-destructive survey but, the fire resistance of doors to rooms and compartmentation within the property is considered.
6. At the time of writing this report, the survey work to the communal areas on the Barbican Residential Estate was complete and the internal survey work on a sample of properties is well underway. The draft reports are due to be submitted by 31 March 2018. As the assessments are completed and submitted to us, they are being analysed by staff in Property Services, Estate Management and by the City's Fire Safety Advisor for accuracy and detail.
7. It was a requirement of the contract with Frankham's that any serious fire safety issues or concerns identified during the survey process would be immediately reported to the City Corporation. There have been no such issues.
8. As part of the new FRA process, urgent recommendations are being addressed as a priority and a detailed Action Plan will be developed to plan, programme and implement all other recommendations as appropriate.
9. A summary report outlining the headline findings from the newly completed FRA's will be presented to your Committee at the earliest opportunity after the Action Plan has been finalised.
10. It is intended that the new FRAs will be made available to the public through the Fire Safety pages on the City's website. The current FRAs, which are not due for review until November 2018, have already been made available here.
11. We have continued to carry out work to address the risks highlighted by the previous (2016) FRAs, including, for example, removing barriers to fire escape routes.

## **Communication with residents**

12. Detailed information, in the form of 'Frequently Asked Questions' bulletins, was produced specifically for the Barbican Estate. This was distributed to all House Groups and to residents through our email broadcast service and has also been posted on the Housing Fire Safety pages on the City's website.
13. There have been no new significant fire safety issues raised by residents since the last update report in November 2017. Detailed information on fire safety is available on the City's website.
14. Once we have completed our research into fire safety improvements and have all the relevant information, we will write to residents again to outline the City's position regarding retrofitting sprinklers, fire alarms and new fire doors.

## **Fire Doors, Sprinkler Systems and Alarms**

15. We have identified a number of front entrance doors from our residential blocks of flats that are being tested for fire resistance. Some of these have been, or will be sent away to the Building Research Establishment (BRE) but, due to capacity issues, the BRE has a turnaround period in excess of 20 weeks. Once the testing has been done and the reports received, we will be able to decide whether or not the doors on the Barbican Estate require upgrading and, if they do, we can properly prioritise, plan and cost a door replacement programme.
16. As part of all the projects included in our Major Works Programme, including those on the Barbican, fire safety has been given the highest priority. New methods of containment to protect fire escape routes have been introduced and fire stopping is being checked and improved wherever necessary.
17. The feasibility study into the potential installation of sprinkler systems in our tower blocks has now been received from our consultant, Butler & Young Group Ltd and has been analysed by staff in the Property Services Team. It is intended that once the work on the new FRA's is complete, along with our research into fire alarms, sprinklers and fire doors, a detailed holistic report on fire safety will be brought back to this Committee outlining proposals for fire safety improvements on the Barbican Estate.

## **Estate Management**

18. Barbican Estate staff continue their work to ensure that balconies, walkways and exits are kept clear from hazards. This includes the removal of combustible material from outside properties, along with any items which might cause a trip hazard for residents or firefighting crews in the event of an emergency.
19. A further review of estate walkabouts and checks has been carried out, with a view to improving consistency and monitoring, and to introducing an automated system for recording data and follow up actions.

## **Inspections by the LFB**

20. As part of the government's response to the Grenfell Tower tragedy, fire services across the country have been instructed to carry out ad-hoc inspections on residential flat blocks to ensure that they comply with the requirements of the Regulatory Reform (Fire Safety) Order 2005 and to ensure that appropriate FRAs are being carried out.
21. The LFB has carried out several ad-hoc inspections on the City Corporation's residential blocks in the last few months. Subsequently, we have received Fire Safety Deficiency Notices on a number of our premises but, only one of those was on the Barbican Estate. The Deficiency Notice issued for Willoughby House was challenged by the City's own Fire Safety Advisor as being incorrect and we are currently awaiting a response.

## **Resources**

22. As Members will appreciate the level of work relating to fire safety that has arisen, and continues to arise, in the aftermath of the Grenfell Tower fire has been unprecedented. The vast burden of this work has fallen on the existing staff within the Housing Property Services and Housing and Barbican Estate Management teams. Staff have responded commendably to the challenge that this considerable amount of extra work has thrown up and their efforts have been reflected in the positive feedback we have received from residents in dealing with, and allaying, their fears in relation to fire safety in their homes.
23. We have recently appointed a new Health and Safety Manager within DCCS, whose main priority is to co-ordinate our work around fire safety with particular focus on the FRA process and the implementation of the resulting Action Plans.
24. We have previously alerted Members to the potential need for additional resources to ensure that we are able to deal effectively with the fire safety improvement measures that we are considering and have committed to with particular regard to:
  - Door replacement programme;
  - Installation of fire suppression systems (sprinklers);
  - Fire safety management planning;
  - Communications and website development.
25. At this stage, until we have the results of the fire resistance testing, feasibility study into sprinklers, completion of the new round of FRA's and information from government in relation to changes in Building Regulations and guidance from the Grenfell Tower enquiry, we are not in a position to properly identify any additional resources that may be required. We will naturally keep Members informed on this matter, and seek the necessary approvals, when we are in a position to do so.

## **Corporate & Strategic Implications**

26. Clearly, as well as the resources issue outlined above, there are further serious financial implications for the City in carrying out the fire safety improvements included and outlined in this report. There will also likely be a financial impact on homeowners on the Barbican Estate if these works are undertaken.
27. The City must also be mindful of the reputational damage should it decide not to take reasonable measures to improve fire safety. The key issue for Members will be to decide what action and expenditure is reasonable and proportionate to the risk.

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<b>Committee:</b>	<b>Date:</b>
Audit and Risk Management Committee	6 <sup>th</sup> March 2018
<b>Subject:</b> Internal Audit Update Report	<b>Public</b>
<b>Report of:</b> Head of Audit and Risk Management <b>Report author</b> Pat Stothard – Head of Audit and Risk Management	<b>For Information</b>

## Summary

This report provides an update on internal audit activity since the last Committee report to the 28<sup>th</sup> November 2017 meeting.

Work on the 2017-18 internal plan is progressing, To 14 February, 47% of the plan has been completed to a minimum of draft report stage. Fieldwork is on-going for the remaining 53% of the annual plan. Although the resources are available to deliver the Plan, as delivery is behind schedule, additional resources have been drafted in from our partners, Mazars, to assist with the review of audit fieldwork and reports in order to ensure that the Plan is completed on a timely basis. The additional resources have been authorised by the Chamberlain.

## Recommendation

- That this report is noted.

## Main Report

### Background

1. This report sets out internal audit activity since the last report to Committee and the opinion of the Head of Audit and Risk Management in relation to the adequacy and effectiveness of the control environment.

### Current position

2. Work on the internal audit plan 2017-18 is progressing, 47% of the plan has been completed to a minimum of draft report stage. Fieldwork is on-going for a further 53% of the annual plan; six audits have been completed to Final Report stage since the November 2017 meeting: Use of Waivers (Amber Assurance); Corporate Wide Review of Business Travel (Amber Assurance); Social Investment Fund (Green Assurance); Barbican Cash Handling (Amber Assurance); Guildhall School Sundial Court (Amber Assurance); and Tower Bridge and Monument Major Incident Plan (Green Assurance). A further 17 audits have been completed to Draft Report stage and the fieldwork for the remaining 31 further reviews is being progressed. Full details of plan progress for 2017-18 are included within **Appendix 1**.
3. While the progress on delivery of the audit plan is behind target at this stage, there are a number of audits which are currently under review, and fieldwork is underway on all remaining audits. Resources are available to deliver the plan by year end, but in some

cases quality review work may be completed in the first two weeks of April. To assist with the review process and to improve the higher level of review work at year end by the management team, additional resources have been drafted in from our partners, Mazars, to help with the review of audit fieldwork and reports in order to ensure that the Plan is completed.

#### **Corporate-Wide Use of Waivers (Amber Assurance)**

4. Based on a review of the Procurement Code 2015 and subsequent sample testing, the audit confirmed that adequate controls are in place to ensure that waivers are appropriately authorised before they are processed. An opportunity was identified to revise current arrangements to ensure that Senior Management are fully consulted on waivers over £50k in value, as per established arrangements.
5. On the basis of discussions with the Procurement Operations Manager and the Procurement Policy and Compliance Officer, together with review of waiver logs, forms and relevant committee reports, there is scope to enhance existing controls to ensure that only valid waivers are processed. Amber priority recommendations have been raised in relation to:
  - Addressing miscategorisation of waivers.
  - Identifying and managing waivers issued to make use of preferred suppliers or as a result of poor operational planning.
  - Recording waiver information.
6. Whilst arrangements were confirmed as being in place to manage the use of retrospective waivers, amber priority recommendations have been made to strengthen internal control in relation to:
  - Providing management information to senior management and Members;
  - Where appropriate, taking disciplinary action against staff who repeatedly request approval of retrospective waivers.
7. A total of seven amber rated recommendations were made as a result of this audit and the Chamberlain agreed to implement all of these recommendations by 31<sup>st</sup> May 2018.

#### **Corporate-Wide Audit of Business Travel (Amber Assurance)**

8. There is scope for improvement in relation to the Business Travel Scheme Policy for the City. Three amber recommendations have been raised regarding an update to the policy for accuracy and appropriateness, clear ownership of the policy and ensuring that only one version of the policy is in operation and available to staff.
9. There is scope for control improvement in regard to the administration of business travel across City departments. Three amber recommendations have been raised regarding the following: business travel insurance, approval of business travel arrangements and supporting documentation for business travel purchases.
10. There is scope for improvement in relation to the City achieving value for money in business travel arrangements. Two amber recommendations have been raised in relation to the corporate contract for taxi services and the completion of the corporate review of business travel to produce an options appraisal.

11. A total of eight amber rated recommendations were made as a result of this audit and the Town Clerk agreed to implement all of these recommendations by 31<sup>st</sup> May 2018.

### **Social Investment Fund (Green Assurance)**

12. This audit identified robust arrangements in place for the administration and governance of the Social Investment Fund. Clear criteria to assess suitability of investment proposals exist and Social Investment Board Terms of Reference, approved by the Court of Common Council, are included in the Members Handbook. Adequate arrangements were noted in ensuring that members of the Social Investment Board (SIB) have the necessary skills and or support from relevant officers, analysts and advisers to fulfil their roles. It was also noted that sufficient supporting information is made available to SIB Trustees to enable them to make decisions in respect of new investments.
13. Arrangements in place in respect of the Investment Review Process are largely adequate. There is a defined investment review process used to review investment proposals. Testing established that all steps identified in the Investment Review Process have been followed through; however, meetings held at “pipeline” stage were not formally minuted. It is considered that pipeline meetings should be minuted and decisions recorded and reported to SIB, to ensure greater transparency in the review process. This issue was raised with the Principal Grants Officer and with the Head of Charity and Social Investment Finance during the course of the audit and has now been addressed. Minutes of the October 2017 pipeline meeting and a copy of the December 2017 portfolio report presented to the SIB were provided to Audit.
14. Our audit established that a clear and effective process for communicating key performance information to Members is in place. The “Traffic Light” rating approach was adopted in December 2013, to evaluate investments performance. Testing of two current investments identified that application of the traffic light approach was used in both cases, predefined criteria was followed through and information reported was consistent with supporting evidence from Investees.
15. Adequate controls for the overall Social Investment Fund (SIF) management and administration were identified. The Investment Committee provide oversight to the work of the Social Investment Board and the investments placed through the SIF. The unallocated balance of the SIF is invested by the Corporation’s Treasury Team, in the same manner and together with other Bridge House Estates’ investments. Investments of this element of the SIF are made in accordance with the City of London Investment Strategy and investment performance is monitored by the Financial Investment Board, which also report to the Investment Committee.
16. Operational costs for the Social Investment Fund are met by City Bridge Trust and are assimilated by it. This was approved by the Court of Common Council at the creation of the Social Investment Fund.
17. No recommendations were made as a result of this audit.

### **Barbican Centre Cash Handling**

18. On the basis of audit testing performed, arrangements in operation for the identification, collection, recording, banking, safe custody and security of processing of cash income received did not adequately mitigate the risk associated with cash handling. Areas of good practice were noted, including the design of some documented processes / procedures, although audit testing identified examples of inconsistent application and

non-compliance. Weaknesses were noted in respect of the Bars operation in particular, whereby cash-handling arrangements in practice appeared not to have been brought fully in line with other income areas.

19. Amber priority recommendations were made in the following areas to strengthen the control environment and for Barbican management to obtain on-going assurance that agreed procedures are operating as intended:
  - Updating procedural guidance to reflect all cash operations (recommendation 1);
  - Promotion of agreed procedures and associated checking to confirm compliance (recommendation 2);
  - Introducing a register and sign-off arrangements for Bars income deposited in the Cash Counting Office (CCO) safe (recommendation 3), and
  - Enforcement of counter-signing in respect of income reconciliation forms (recommendation 4).
20. Audit sample testing in respect of the administration of cash advances (e.g. in respect of Artists fees and per diems) determined compliance with agreed procedures for submission, checking and authorisation, disbursement, recording and reconciliation. No recommendations were made in this area.
21. Four amber priority and one green priority recommendation were made, and all were agreed by Barbican Management for implementation by 31<sup>st</sup> May 2018 at the latest.

#### **The Guildhall School – Sundial Court Project Governance (Amber Assurance)**

22. The Sundial Court lease renewal was successfully actioned, enabling removal of the red rated risk 'GSMD EFI 001' from the School's risk register in July 2017. Audit testing did not identify, however, an approved strategy for addressing long-term accommodation needs (Recommendation 1) or a full options appraisal to support the decision to renew the lease. It was noted that the Board requested in May 2016 that such a strategy be developed and whilst a draft was prepared, this was not presented to Committee or formerly adopted.
23. On the basis of audit testing performed, determination of accommodation needs and delivery of the preferred option was not treated as a formal project with confirmation of scope, objectives, key tasks and deliverables, timeline and milestones, defined roles and responsibilities, budgeting and costing information.
24. Examination of Committee documents determined that the necessary approvals were obtained for Sundial Court lease renewal but timescales did not allow for full consideration of options: the Board requested in September 2016 that quotes be sought from consultants to search for alternative accommodation and this was not progressed to completion prior to the agreement for lease renewal being obtained from the Finance Committee and Court of Common Council in December 2016 and January 2017 respectively. The City Surveyor's Department advised Internal Audit that negotiations with the Landlord had progressed at that point to where the Landlord only required a marginal (10%) increase in the terms of the option to renew, therefore costing alternative accommodation options was no longer required.
25. Robust scrutiny and challenge of the risk management arrangements in relation to the lease renewal was confirmed by reference to the minutes of the School's Audit and Risk Management Committee (A&RMC). Audit testing determined that on one occasion a risk management action update reflected in the School's risk register was inaccurate and on

a separate occasion updates were not made on a timely basis; both anomalies were picked up by the School's A&RMC although a recommendation has been made for the School's risk owners to ensure that risk mitigation actions are captured appropriately on Covalent (Recommendation 2). In addition, the financial implication of the lease renewal transaction - Stamp Duty Land Tax of £103k - was not identified prior to approval (Recommendation 3).

26. Three Amber rated recommendations were made as a result of this audit and the Principal agreed to implement all three recommendations by July 2018.

### **Open Spaces – Tower Bridge and Monument Major Incident Plan (Green Assurance)**

27. The Civil Contingencies Act details seven civil protection duties, central to which is Emergency Planning. Local Authorities (known as Category 1 responders) are required to maintain plans for managing emergencies (major incidents). Internal Audit testing in respect of both Tower Bridge and the Monument confirmed that there is a strategy in operation to manage major incidents, supported by documented emergency plans covering a range of scenarios, and associated procedures. Plans cover the scenarios considered most likely by local management: fire, bomb and incidents which require lockdown of the site. Responsibilities for central management of emergency procedures for both sites have been allocated to the Tower Bridge Operations Team.
28. The Civil Contingencies Act advises that emergency drills and exercises should be performed regularly to test the adequacy of the major incident plan arrangements. Audit testing confirmed that a forward schedule of tests is maintained and that regular drills are undertaken by the operations staff to test out arrangements in respect of planned scenarios. A record is maintained in respect of test outcomes / safety checks, but audit examination established that not all key details were captured. An amber priority recommendation has been made to address this and to consider adding a target date for completion of actions (Recommendation 1).
29. The Operations Manager advised that bomb and fire evacuation drills are not performed as these are impractical due to the building structure. Some compensatory control was confirmed to be in operation. It was established by examination of the Monument Procedures Manual that visitors to the Monument are not permitted to take large bags up the stairs and these are searched and stored at the main entry point. All other types of small bags are randomly checked by staff which has already been agreed as appropriate and effective by the City Police Counter Terrorism Security Advisors (CTSA). This is reviewed as part of our Protective Security Improvement Activity risk assessment undertaken in conjunction with the CTSA as well as reviewed if the threat level is raised: we do not take these decisions upon ourselves but respond to the advice of our CTSA, which is proportionate to the risk and based on the profile of the Monument within the Capital's counter terrorism landscape.
30. Audit testing determined that training relevant to incident management was available to staff in 2017, including; security awareness training, City Police training and Fire Marshall training.
31. One Amber rated recommendation was made as a result of this audit and the Director of Open Spaces agreed to implement this recommendation by 28<sup>th</sup> February 2018.

## **Conclusion**

32. Internal Audit's opinion of the City's overall internal control environment is that it remains adequate and effective although some areas of the financial and operational framework do require strengthening by management.

## **Appendices**

Appendix 1 Internal Audit Plan Schedule of Projects 2017-18

Pat Stothard, Head of Audit and Risk Management

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## Internal Audit Work 2017-18 (as at 14-02-2018)

This appendix complements the summary outcome of final reports as presented above.

## Progress against the plan – Summary

No of Reviews	Fieldwork	Draft Report	Final Report	Completed
62	33	18	6	5
100%	53%	29%	10%	8%

## Progress against the plan – Detail

No	Department	Main Audit Review	Status *	Assurance ***	Recommendations Made**				Recommendations Agreed**				
					R	A	G	Total	R	A	G	Total	
1	CORPORATE	EMERGENCY PLANNING	Fieldwork										
2	CORPORATE	USE OF WAIVERS	Final Report	Amber	0	7	0	7	0	7	0	7	
3	CORPORATE	IR 35 - USE CONSULTANTS AND SPECIALIST (OFF PAYROLL ENGAGEMENT)	Draft Report										
4	CORPORATE	EVALUATION OF SUB £100K TENDERS	Draft Report										
5	CORPORATE	PROCUREMENT CONSULTATION WITH STAKEHOLDERS	Draft Report										
6	CORPORATE	INCOME COLLECTION AND BANKING	Fieldwork										
7	CORPORATE	EXPENSES - PROCUREMENT CARDS - PETTY CASH	Draft Report										
8	CORPORATE	CORPORATE-WIDE REVIEW OF BUSINESS TRAVEL	Final Report	Amber	0	8	0	8	0	8	0	8	
9	CORPORATE	CORPORATE FOLLOW-UP EXERCISES	3rd Quarter Completed	n/a	-	-	-	-	-	-	-	-	
10	CORPORATE	GDPR – GAP ANALYSIS	Draft Report										

No	Department	Main Audit Review	Status *	Assurance ***	Recommendations Made**				Recommendations Agreed**			
					R	A	G	Total	R	A	G	Total
	CORPORATE	GDPR – READINESS	Deferred									
11	CORPORATE WIDE	CONTRACT MANAGEMENT (Police Accommodation Programme)	Fieldwork									
	TOWN CLERK	FREEDOM OF INFORMATION REQUESTS	Deferred									
12	TOWN CLERK	SOCIAL INVESTMENT FUND	Final Report	Green	0	0	0	0	0	0	0	0
13	TOWN CLERK	MEMBERS AND OFFICERS DECLARATIONS INTERESTS	Draft Report									
14	TOWN CLERK	HUMAN RESOURCES – STARTERS AND LEAVERS	Fieldwork									
15	TOWN CLERK	STAFF LEARNING & DEVELOPMENT (including Central Training)	Fieldwork									
16	TOWN CLERKS	GUILDHALL CLUB ACCOUNTS	Completed	Green	0	0	0	0	0	0	0	0
	CHAMBERLAIN	IT - ORACLE PROPERTY MANAGER MODULE APPLICATION REVIEW	Deferred									
	CHAMBERLAIN	IT – CLOUD COMPUTING	Deferred									
17	CHAMBERLAIN	IT – INFORMATION MANAGEMENT	Fieldwork									
18	CHAMBERLAIN	IT CYBER SECURITY–MALWARE PROTECTION	Fieldwork									
19	CHAMBERLAIN	IT INFORMATION SECURITY – INCIDENT MANAGEMENT	Fieldwork									
	CHAMBERLAIN	IT - MOBILE DEVICES	Deferred									
20	CHAMBERLAIN	IT - SOCIAL MEDIA	Draft Report									
	CHAMBERLAIN	IT BUSINESS CONTINUITY	Deferred									
21	CHAMBERLAIN	IT ORACLE (CBIS) APPLICATION	Fieldwork									
	CHAMBERLAIN	IT ORACLE (CBIS) REVENUE	Deleted									
22	CHAMBERLAIN	MEDIUM TERM FINANCIAL PLANNING	Draft Report									
23	CHAMBERLAIN	CITY PROCUREMENT	Draft Report									
24	CHAMBERLAIN	COUNCIL TAX & NNDR	Completed	Amber	0	2	2	4	0	2	2	4





No	Department	Main Audit Review	Status *	Assurance ***	Recommendations Made**				Recommendations Agreed**				
					R	A	G	Total	R	A	G	Total	
62	CLFS	INCOME GENERATION	Draft Report										

\* Status definitions \_ Fieldwork + Formal TOR Issued. Draft = Formal draft report issued. Final = Review complete and final report issued

\*\* Only completed once final report has been issued.

### Performance Indicators

Performance Measures	Target	Actual
1 Completion of audit plan	95% of planned audits completed to draft report stage by end of plan review period (31 March 2017)	25%
2 Timely production of draft report	Average time taken to issue draft reports within 28 days of end of fieldwork i.e. exit meeting date.	20 days
3 Timely response to draft report	Average time taken to obtain a full management response within 28 days of the draft report being issued.	27 days
4 Timely issue of final report	Average time taken to finalise the review within 7 working days on full response from management	6 days
5 Customer satisfactions	Through key question on post audit surveys – target 90%	100%
6 Percentage (%) of audit section staff with relevant professional qualification	Target 75%	78%

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<b>Committee:</b>	<b>Date:</b>
Audit and Risk Management Committee	6 March 2018
<b>Subject:</b> 2018-19 to 2020-21- Draft Internal Audit Plan	<b>Public</b>
<b>Report of:</b> Pat Stothard - Head of Audit and Risk Management	<b>For Decision</b>

## Summary

The Head of Audit and Risk Management is required by the Public Sector Internal Audit Standards to establish a risk-based plan to determine the priorities of internal audit activity, consistent with the organisation's goals. The risk-based plan must take into account the requirement to produce an annual independent internal audit opinion on the design and effectiveness of the City's governance, internal control and risk management environment. This report sets out the initial proposed Internal Audit Annual Plan for 2018-19 and the Strategic Audit Plan for 2018-19 to 2020-21.

Internal Audit is currently completing the process of consulting with Chief Officers and their Senior Managers to confirm the proposed plan and coverage within their areas and a process of focussing the Plan on priority audit areas will follow.

As requested by Members, the Three Year Plan is supported by details of audit coverage in previous years; this has been provided to Members in a separate spreadsheet and in hard copy at the A&RMC meeting.

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## Recommendation

Members are asked to consider the initial draft 2018-19 Internal Audit work plan and the Strategic Audit Plan for 2018-19 to 2020-21.

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## **Main Report**

### **Background**

1. The purpose of this report is to present the draft Internal Audit Plan for 2018-19 and the Strategic Audit Plan for 2018-19 to 2020-21. The plan has been produced with input from the Internal Audit, Risk and Anti-Fraud team. Audit areas have been identified from the Corporate Plan and from departmental and institutional business plans and risk registers, together with other sources of assurance and then risk assessed using a similar approach as that defined in the Risk Management methodology.
2. Internal Audit is currently completing the process of consulting with Chief Officers and their Senior Managers to confirm the proposed plan and coverage within their areas and a process of focussing the Plan on priority audit areas will follow.

### **Current position**

3. The draft Internal Audit Plan for 2018-19 currently provides for an estimated coverage of 1,040 days to deliver the internal audit reviews. Through a process of focussed prioritisation, the draft Plan will be reduced down to approximately 935 days; however, while this allows for 25 days to finalise prior year audits, this does not provide for any contingency days. In addition, 100 days have been agreed with the Museum of London and London Councils. The coverage will provide sufficient assurance to produce a Head of Internal Audit Opinion.

### **Role of Internal Audit**

4. Internal auditing is an independent, objective assurance and consulting (advisory) activity designed to add value and improve an organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
5. The Internal Audit function reviews the operations of the City. It also supplies the internal audit service to the Museum of London and London Councils under an SLA.
6. The Internal Audit function operates in accordance with the Audit Charter which reflects statutory and professional requirements. Implementation of the audit plan helps the City maintain "a sound system of internal control which facilitates the effective exercise of functions and which includes arrangements for the management of risk". Proper practices are defined in the Public Sector Internal Audit Standards which are the professional basis for the operation of the Internal Audit function.
7. Internal audit adds value and improves the City's operations by promoting a robust control environment for both financial and operational systems, promoting best practice in governance and risk management as well as making recommendations for improvements in operating efficiencies.

## **Internal Audit Planning and Allocation of Resources process**

8. The Head of Internal Audit is required by the Public Sector Internal Audit Standards to establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals. The risk-based plan must take into account the requirement to produce an annual independent internal audit opinion on the design and effectiveness of the City's governance, internal control and risk management environment.
9. Annually, internal audit conducts a risk-based audit planning process to ensure appropriate coverage of the City's operations (and external partners, where appropriate) is provided.
10. The detailed plan of internal audit work is detailed in Appendix 1. It has been presented in four main areas:
  - Corporate and strategic reviews, which mainly address the corporate risks and/or are cross cutting reviews to identify efficiencies in process and good practice that can be shared.
  - Departmental reviews that have been subject to the internal audit risk assessment process and cover some of the areas of concern requested to be reviewed by Chief Officers, including information system reviews.
  - Institutional reviews, which cover the key risk areas of the City's Institutions (Police, Barbican Centre, Guildhall School of Music and Drama, City of London Freemans School, City of London School and City of London School for Girls). These programmes are also separately agreed with these institutions.
  - Non City Institutional reviews that cover the priority and key financial areas of the Museum of London and London Councils. These programmes are also separately agreed with these institutions.

However, as discussed at the Institutional committees already presented with draft plans, we have indicated that they may be subject to change.

11. Most audits included in the plan are full assurance audits that will result in a formal opinion given over the adequacy of risk management and control within the system audited and the extent to which controls have been applied, with a provision also included for follow ups.
12. The Internal Audit annual work plan will provide Members and management with assurance over the financial control and operational framework in key risk areas. It will also lead to an overall annual opinion on the effectiveness of the City's arrangements for internal control, risk management and governance.
13. The in-house resources are supplemented by our Internal Audit partner, Mazars, who provide IT audit and general audit resources to deliver the Plan. This brings external knowledge and expertise to support the strength of knowledge of the City provided by the in-house staff. Details of the Internal Audit resource base are provided at Appendix 2.

## **Appendices**

Appendix 1 – Detailed internal audit plan 2018-19 and 2018-19 to 2020-21 three-year strategy - *NB. this appendix is fairly long and detailed. It will therefore be provided electronically, separate to the main agenda, and printed copies will be available at the meeting.*

Appendix 2 – Internal Audit Resource Base 2018-19

## **Contacts**

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## Draft Internal Audit Plan 2018/19 to 2020/21

Dept Code	Audit	2018-19	2019-20	2020-21
CORP	PROJECT MANAGEMENT PROCEDURES COMPLIANCE			15
CORP	CREDITORS (CENTRALISED PURCHASE ORDERING & INVOICE PAYMENT)		10	
CORP	BUSINESS CONTINUITY & DISASTER RECOVERY	15		
CORP	HEALTH & SAFETY			10
CORP	PETTY CASH		20	20
CORP	PROJECT MANAGEMENT		20	
CORP	EMERGENCY PLANNING		20	
CORP	IR35 - USE OF CONSULTANTS & SPECIALISTS (OFF PAYROLL ENGAGEMENT)	5		
CORP	CORPORATE-WIDE INCOME COLLECTION & BANKING		20	
CORP	CORPORATE-WIDE EXPENSES, PROCUREMENT CARDS, PETTY CASH			20
CORP	CONTRACT MANAGEMENT		40	40
CORP	GDPR READINESS	20		
CORP	CORPORATE-WIDE RISK MANAGEMENT		15	
CORP	CORPORATE-WIDE RETROSPECTIVE WAIVERS	12		
CORP	CORPORATE-WIDE - SUPPLIERS FINANCIAL HEALTH/RESILIENCE	12		
CORP	CORPORATE -WIDE - COMMERCIAL MANAGER SCORECARD PROCEDURES	10		
CORP	CORPORATE-WIDE BUDGET ESTIMATE PREPARATION	30		
CORP	CORPORATE FOLLOW-UP EXERCISES	25	20	20
CORP	CORPORATE-WIDE CHANGE CONTROL	20		
CORP	CORPORATE-WIDE HIGHWAYS REPAIRS AND MAINTENANCE CONTRACT	20		
CORP	CORPORATE-WIDE PROGRAMMED REPAIRS AND MAINTENANCE	20		

Dept Code	Audit	2018-19	2019-20	2020-21
CORP	FIRE SAFETY RISK MANAGEMENT		15	
CORP	OPERATIONAL PROPERTY RENT & SERVICE CHARGES	12		
CORP	ASSET MANAGEMENT		15	
CORP	PROJECTS CHANGE CONTROL PROCESS	10		
CORP	PROJECT ESTIMATING (GATEWAY PROCESS)		15	
TCK	CITY BRIDGE RISK MANAGEMENT	10		
CORP	EDUCATION & SKILLS SAFEGUARDING GOVERNANCE (INCLUDING SAFER RECRUITMENT)	30		
CORP	MANAGEMENT OF COMMERCIAL LEASES	12		
CORP	MAJOR INCIDENT PLANNING (LINKED TO VESSEL STRIKE / TERRORISM)			8
CORP	ACCOMMODATION PLANNING		10	
CORP	WORKFORCE PLANNING		15	
CORP	LEGIONNAIRES RISK MANAGEMENT		12	
	ASBESTOS RISK MANAGEMENT			12
		<b>263</b>	<b>247</b>	<b>145</b>
Town Clerk's				
TCK	EDO OVERSEAS OFFICES		5	
TCK	DATA PROTECTION & FOI	10		10
TCK	MEMBER DECLARATIONS OF INTEREST & RELATED PARTY TRANSACTIONS		10	
TCK	PERFORMANCE DEVELOPMENT FRAMEWORK		10	
TCK	CITY BRIDGE TRUST GRANTS	15	15	15
TCK	MEMBERS AND OFFICERS DECLARATIONS INTERESTS		10	
TCK	HUMAN RESOURCES - STARTER AND LEAVERS		15	
TCK	STAFF LEARNING & DEVELOPMENT (including Central Training)			15
TCK	GUILDHALL CLUB ACCOUNTS	5	5	5
TCK	LMA - COLLECTION MANAGEMENT - ACQUISITION AND DISPOSAL	12		
TCK	SUSTAINABILITY	12		
TCK	ECONOMIC DEVELOPMENT	15		15

Dept Code	Audit	2018-19	2019-20	2020-21
TCK	HUMAN RESOURCES - POLICIES/PROCEDURES/GUIDANCE REVIEWS		20	
TCK	CITY BRIDGE TRUST - GRANT APPLICATION GOVERNANCE	10		
	HUMAN RESOURCES - STAFF SICKNESS MANAGEMENT		15	
	HUMAN RESOURCES - CORPORATE RECRUITMENT			15
Chamberlain's		<b>79</b>	<b>105</b>	<b>75</b>
CHB	TREASURY MANAGEMENT			10
CHB	BUSINESS RATES / COUNCIL TAX - APPLICATIONS HOSTING	15		15
CHB	PAYROLL	20		20
CHB	MAIN ACCOUNTING SYSTEM - GL / AR / AP	10		
CHB	COUNCIL TAX	10		10
CHB	BUSINESS RATES		10	
CHB	VAT MANAGEMENT		10	
CHB	CBIS AR			15
CHB - IT	INFORMATION MANAGEMENT	20		
CHB - IT	CLOUD COMPUTING	15		
CHB - IT	MOBILE DEVICES	10		
CHB - IT	BUSINESS CONTINUITY	15		
CHB - IT	IT CONTRACT MANAGEMENT	10		
CHB - IT	ASSET MANAGEMENT ROAD MAP	10		
CHB - IT	To be determined following updated IT Audit Needs Assessment 2019-21			
CHB	CHANGE CONTROL	10	80	80
CHB	TREASURY MANAGEMENT	15		15
CHB	PENSIONS	15		15
CHB	PROCESS MAPS	10		
CHB	CBIS (ORACLE) PROPERTY MODULE	12		
	IT AUDITS MAN DAYS		120	120
		<b>197</b>	<b>220</b>	<b>300</b>

Dept Code	Audit	2018-19	2019-20	2020-21
<b>COMMUNITY AND CHILDRENS' SERVICES</b>				
DCCS	FINANCIAL MANAGEMENT		15	
DCCS	HOUSING SERVICE CHARGES		10	
DCCS	BARBICAN ESTATE SERVICE CHARGES		10	
DCCS	HOUSING ALLOCATIONS LETTINGS AND VOIDS			10
DCCS	HOUSING RENTS			10
DCCS	BARBICAN ESTATE RENTS			10
DCCS	MENTAL HEALTH PROVISION	15		
DCCS	ASYLUM SEEKERS	10		
DCCS	EARLY HELP STRATEGY	10		
DCCS	HOUSING SAFETY, REPAIRS & MAINTENANCE		15	
DCCS	SOCIAL CARE FUNDING		10	
DCCS	DIRECT PAYMENTS		8	
DCCS	CHILDREN LOOKED AFTER			10
DCCS	LIBRARIES			10
DCCS	SEN			10
		<b>35</b>	<b>68</b>	<b>60</b>
<b>SJC Foundation School</b>				
SJC	SCHOOLS FINANCIAL VALUE STANDARD		5	5
SJC	SIR JOHN CASS SCHOOL INCOME GENERATION			
SJC	CASS CHILDREN & FAMILY CENTRE	8		
		<b>8</b>	<b>5</b>	<b>5</b>
<b>City Surveyor's</b>				
SVY	RENTS, LETTINGS & VACANCIES			15
SVY	PROJECT RESOURCING	12		
SVY	FACILITIES MANAGEMENT SBR REVIEW	12		
SVY	FRAUD RISK MANAGEMENT		8	

Dept Code	Audit	2018- 19	2019- 20	2020- 21
		24	8	15
OPEN SPACES				
OSD	FLEET MANAGEMENT			10
OSD	INCOME CHECKS		20	
OSD	CHINGFORD GOLF COURSE			10
OSD	MONUMENT CASH REVIEW			
OSD	FINANCIAL MANAGEMENT INCLUDING INTERNAL CONTROL PROCECURES		20	
OSD	TOWER BRIDGE & MONUMENT INCOME & EXPENDITURE	10		
OSD	EPPING FOREST - VISITORS CENTRE & ESTABLISHMENT REVIEW	15		
OSD	CEMETERY AND CREMATORIUM - REPAIRS AND MAINTENANCE	15		
OSD	KEATS HOUSE - RECRUITMENT AND STAFF TRAINING	8		
OSD	MAJOR INCIDENT PLANNING	10		
OSD	PROGRAMME AND PROJECT MANAGEMENT	15		
OSD	PERFORMANCE MEASURES	7		
OSD	HAMPSTEAD HEATH - ESTABLISHMENT REVIEW			8
OSD	WEST HAM PARK - ESTABLISHMENT REVIEW		8	
OSD	CEMETERY & CREMATORIUM - MONUMENTS AND LANDSCAPE		10	
OSD	CITY VISITORS CENTRE - INCOME AND EXPENDITURE			10
OSD	KEATS HOUSE - INCOME AND EXPENDITURE			10
OSD	ASSET MANAGEMENT - REPAIRS AND MAINTENANCE			10
OSD	BUSINESS PLANNING PROCESS		10	
OSD	STAFF OVERTIME PAYMENTS			10
OSD	STAFF EXPENSES		10	
OSD	TOWER BRIDGE AND MONUMENT SHOP STOCK CONTROL			10
		<b>80</b>	<b>78</b>	<b>78</b>
Built Environment				
DBE	DBE PLANNING APPLICATIONS			10
DBE	DBE CAR PARKS		20	

Dept Code	Audit	2018-19	2019-20	2020-21
DBE	HIGHWAYS			15
DBE	TFL LOCAL IMPLMENTATION PLAN			10
DBE	DBE PROJECT TEAM	15		
DBE	BUSINESS CONTINUITY PLANNING	10		
DBE	PERFORMANCE MEASURES	10		
DBE	DBE ON-STREET PARKING		15	
DBE	LOCAL IMPROVEMENT PLAN		10	
		<b>35</b>	<b>45</b>	<b>35</b>
Markets & Consumer Protection				
M&CP	FINANCIAL MANAGEMENT		15	
M&CP	HEATHROW ANIMAL RECEPTION CENTRE			12
M&CP	MARKETS LOCAL CONTRACT MANAGEMENT		10	
M&CP	LICENSING - ELECTRONIC DATABASE	10		
M&CP	BILLINGSGATE TRANSPORT MANAGEMENT		8	
M&CP	HEALTH & SAFETY			8
M&CP	FEE RECOVERY			10
M&CP	LEARNING & DEVELOPMENT			10
		<b>10</b>	<b>33</b>	<b>40</b>
COMPTROLLER & CITY SOLICITOR				
CCS	LEGAL CONSULTATION			
CCS	RECRUITMENT AND RETENTION OF STAFF	8		
CCS	INCOME AND EXPENDITURE	12		
		<b>20</b>	<b>0</b>	<b>0</b>

Dept Code	Audit	2018-19	2019-20	2020-21
<b>REMEMBRANCERS</b>				
REM	GUILDHALL LETTINGS AND FUNCTIONS INCOME			10
REM	STAFF TRAINING	7		
REM	MANAGEMENT OF GUEST DATABASE	6		
REM	EXPENDITURE - PROCUREMENT - PURCHASE CARDS - PETTY CASH		10	
		<b>13</b>	<b>10</b>	<b>10</b>
<b>MANSION HOUSE AND CENTRAL CRIMINAL COURT</b>				
MH	INCOME AND EXPENDITURE	15		
		<b>15</b>	<b>0</b>	<b>0</b>
<b>CITY OF LONDON POLICE</b>				
COLP	ECONOMIC CRIME ACADEMY			10
COLP	BUDGET MONITORING			20
COLP	Project Management			10
COLP	Police Bank Accounts (Defendants)			15
COLP	IT TECHNOLOGY REFRESH PROJECT C/fwd 2017-18	10		
COLP	POLICE OVERTIME	15		
COLP	POLICE PERFORMANCE INDICATORS	5		
COLP	INTERPRETERS FEES	5		
COLP	POLICE PREMISES EXPENDITURE	15		
COLP	POLICE PROCUREMENT CONTRACT MANAGEMENT	15		
	POLICE OFFICER EXPENSES - USE OF PROCUREMENT CARDS - PETTY CASH - EXPENSES	20		
COLP	CLAIMS			
COLP	POLICE FRONT DESKS	10		
COLP	Police Front Offices (including income collection and banking)			10
COLP	Action Fraud Team		10	
COLP	Police Supplies and Services		20	
COLP	Police Fleet Management		10	
COLP	Police Compensation Claims		10	

Dept Code	Audit	2018-19	2019-20	2020-21
COLP	Police Fees and Charges		10	
COLP	IT Audit Days Contingency		15	
COLP	Police Informants Funds			10
COLP	Police Recruitment & Training			15
COLP	Police Performance Indicators			5
COLP	Police Project Management			20
COLP	IT Audit Days Contingency			15
Barbican Centre		<b>95</b>	<b>75</b>	<b>130</b>
BBC	ICT REVIEW			15
BBC	STRATEGIC PLANNING, MONITORING & IMPLEMENTATION	15		
BBC	IT PROJECTS (CRM, AGILE WORKING, TICKETING SYSTEM)	15		
BBC	EVENT CONTRACTS (INCLUDING CANCELLATION ARRANGEMENTS)	10		
BBC	FINANCIAL MONITORING & INCOME GENERATION	15		
BBC	FRAUD RISK MANAGEMENT	10		
BBC	REPAIRS & MAINTENANCE		15	
BBC	PROFESSIONAL DEVELOPMENT & PROGRESSION (ARTISTIC OFFERING / SUPPORTING ARTISTS)			8
BBC	TARGET-SETTING & PERFORMANCE MONITORING		12	
BBC	SPONSORSHIP & DONATIONS		8	
BBC	SAFEGUARDING		15	
BBC	HEALTH & SAFETY			15
BBC	SECURITY			12
		<b>65</b>	<b>50</b>	<b>50</b>

<b>Dept Code</b>	<b>Audit</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
<b>The Guildhall School</b>				
GSMD	STUDENT SUPPORT (b/f)	10		
GSMD	STRATEGIC PLANNING (b/f)	15		
GSMD	INCOME GENERATION (b/f)		15	
GSMD	FINANCIAL PLANNING & FINANCIAL MANAGEMENT	15		
	CONTINGENCY (the audits for GSMD will be confirmed following a workshop with management)	20	45	60
		<b>60</b>	<b>60</b>	<b>60</b>
<b>City of London School for Boys</b>				
CLS	TEACHING & NON-TEACHING STAFF RECRUITMENT			8
CLS	HEALTH & SAFETY	10		
CLS	CYBER SECURITY	8		
CLS	SCHOOL FEES		8	
		<b>18</b>	<b>8</b>	<b>8</b>
<b>City of London School for Girls</b>				
CLSG	TEACHING & NON-TEACHING STAFF RECRUITMENT			8
CLSG	HEALTH AND SAFETY		10	
CLSG	CYBER SECURITY	8		
CLSG	BUDGET ESTIMATING	7		
CLSG	SCHOOL FEES			8
		<b>15</b>	<b>10</b>	<b>16</b>
<b>City of London Freeman's School</b>				
CLFS	TEACHING & NON-TEACHING STAFF RECRUITMENT			8
CLFS	CYBER SECURITY	8		
CLFS	SCHOOL FEES		8	
		<b>8</b>	<b>8</b>	<b>8</b>

<b>Dept Code</b>	<b>Audit</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
	Total Days	<b>1040</b>		
	Finalisation of 2017/18 reports	25		
	Museum of London/London Councils Audit Plan requirements	100		
	Total audit resources required prior to prioritisation	<b>1165</b>		
	Total audit resources available	1060		
	Excess days to be subject to audit plan prioritisation	-105		

## Internal Audit Section

DETAILED ANALYSIS OF AVAILABLE DAYS IN  
2018/2019

	HoA&RM	AM	SA	Mazars Resources	Mazars IT	Total
Gross Days (52 Weeks)	240	520	684	320	40	1804
<b>Less: uncontrollable days</b>						
Bank Holidays (9 days)	9	18	25.2	0	0	52.2
Annual Leave	30	66	86.8	0	0	182.8
Other Leave	0	0	0	0	0	0
Sickness	7	14	21	0	0	42
Maternity Leave	0	0	0	0	0	0
Paternity Leave	0	0	0	0	0	0
<b>Net Available days</b>	<b>194</b>	<b>422</b>	<b>551</b>	<b>320</b>	<b>40</b>	<b>1527</b>
<b>Admin Support</b>						
General (e.g. time recording/staff meetings/staff monitoring)	24	48	34	0	0	106
MK super user	2	10	15	0	0	27
Other contractual absences (e.g. Jury service/volunteering)	1	3	2	0	0	6
CPD Training	5	10	14	0	0	29.0
Corporate Training	1	2	3	0	0	6
CIPFA/IIA /Apprenticeship Training	0	0	0	0	0	0
	<b>33</b>	<b>73</b>	<b>68</b>	<b>0</b>	<b>0</b>	<b>174</b>
<b>Days Available for direct audits and support work</b>	<b>161</b>	<b>349</b>	<b>483</b>	<b>320</b>	<b>40</b>	<b>1353</b>

## Audit Support & Development

### Risk Management

Corporate Risk Management	12	0	0	0	0	12
Corporate Fraud Management	12	0	0	0	0	12
ad hoc on-demand support/advice (risks and controls)	25	40	14	0	0	79
Chamberlain Business Continuity Support	20	0	0	0	0	20

### Anti-Fraud & Corruption

Fraud investigations	0	0	0	0	0	0
Pro-active fraud & prevention	0	0	0	0	0	0

### Audit Planning & Reporting

Audit Planning	8	16	6	0	0	30
Audit Plan progress reporting	5	30	0	0	0	35
External Audit Liaison/co-ordination	2	0	0	0	0	2

### Audit Development

Continuous improvement	8	12	7	0	0	27
Audit policy, research and development	3	12	0	0	0	15
Audit intranet	1	0	2	0	0	3

### Member Support

COL Audit Committee	8	8	0	0	0	16
GSMD Audit Committee	2	6	0	0	0	8
London Councils - Audit Committee	2	2	6	0	0	10
MOL Audit Committee	1	5	0	0	0	6
Police Performance & Resources sub (Police) committee	2	8	0	0	0	10
Barbican Centre Risk/Finance Committee	1	6	0	0	0	7
Other Committees	1	0	0	0	0	1

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<b>113</b>	<b>145</b>	<b>35</b>	<b>0</b>	<b>0</b>	<b>293</b>
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**AVAILABLE FOR AUDIT PROJECTS: -**

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<b>48</b>	<b>204</b>	<b>448</b>	<b>320</b>	<b>40</b>	<b>1060</b>
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<b>Committee:</b>	<b>Date:</b>
Audit and Risk Management Committee	6 March 2018
<b>Subject:</b>	
Internal Audit Charter - update 2018	
<b>Report of:</b> Head of Audit and Risk Management	<b>Public</b>
<b>Report Author:</b> Pat Stothard, Head of Audit and Risk Management	<b>For decision</b>

## Summary

Under the Public Sector Internal Audit Standards (PSIAS), all internal audit services operating within the public sector are required to produce an Internal Audit Charter. This Charter sets out the purpose, authority, and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards (2016) and the CIPFA Local Government Application Note (LGAN). The Charter is reviewed annually and presented to the Audit and Risk Management Committee for approval.

In 2017, the Charter was subject to significant review following the External Quality Assessment undertaken by Mazars and was updated to more clearly reflect the PSIAS requirements and take on issues identified in relation to best practice. Following review, minor amendments have been made to this revised Charter.

### **Recommendations**

1. Members are asked to approve the updated City of London Internal Audit Charter 2018.

### **Background**

- 1 The purpose of this report is to seek approval from Members for revisions to City of London Internal Audit Charter, following amendments to the Public Sector Internal Audit Standards (PSIAS) which were effective from 1st April 2016 and apply to local and central government, the NHS and the devolved governments. The PSIAS (attribute standard 1000) require that all internal audit activities maintain an internal audit charter.

### **The Internal Audit Charter**

- 2 Under the Public Sector Internal Audit Standards (PSIAS), all internal audit services operating within the public sector are required to produce an Internal Audit Charter. The Charter should be reviewed annually and presented to the Audit and Risk Management Committee.

Following revisions to the PSIAS and the External Quality Assessment undertaken

by Mazars in 2016/17, the Internal Audit Charter was updated to include a mission statement for Internal Audit and the core principles for the professional practice of internal auditing, which is one of the key changes within the revised PSIAS.

These are to:-

- Demonstrate integrity;
- Be objective and free from undue influence (independent);
- Align with the strategies, objectives and risks of the organisation;
- Be appropriately positioned and adequately resourced;
- Demonstrate quality and continuous improvement;
- Communicate effectively;
- Provide risk-based assurance;
- Be insightful, proactive, and future-focused; and
- Promote organisational improvement.

3 As required under the PSIAAs, the Charter has been subject to annual review and some minor amendments have been made for clarity.

### **Conclusion**

4 The revised Internal Audit Charter is submitted for approval.

### **Appendices:**

**APPENDIX 1** – City of London Internal Audit Charter 2018 – with revisions

**APPENDIX 2** – City of London Internal Audit Charter 2018 – clean copy

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## CITY OF LONDON

### INTERNAL AUDIT

#### Audit Charter

1. This Charter sets out the purpose, authority, and responsibility of the [Corporation Council](#)'s Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards (2016) and the CIPFA Local Government Application Note (LGAN).

The Charter will be reviewed annually and presented to the Audit and Risk Management Committee for approval.

The Internal Audit, Risk Management and Anti-Fraud functions at the City of London Corporation are provided to a number of bodies, including the City of London Police, the Barbican Centre, the Guildhall School of Music and Drama, and the Independent Schools. Where reference is made to the Corporation, these bodies will be deemed to be included in the objectives and requirements of this Charter.

#### Internal Audit Standards

2. Public Sector Internal Audit Standards (PSIAS), which came into effect on 1 April 2013 and revised in 2016 are mandatory and underpin the Internal Audit arrangements within the City of London Corporation. These requirements include the definition of internal auditing, Code of Ethics and the Standards themselves. The Head of Audit and Risk Management will report on conformance with the PSIAS in his annual report. An independent peer review will be undertaken at least every five years to assess the internal audit functions compliance with these standards.

#### Definition of Internal Audit

3. The Public Sector Internal Audit Standard mandatory definition of internal auditing, as specified by the Institute of Internal Auditors' International Professional Practices Framework (IPPF), has been adopted by the City of London Corporation as follows:

“Internal auditing is an independent, objective assurance and consulting (*advisory*) activity designed to add value and improve an organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

## Mission and Core Principles

4. The IPPF's overarching "Mission" for Internal Audit services is: "...to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight".

The "Core Principles" that underpin delivery of the IPPF mission require internal audit functions to:

- Demonstrate integrity;
- Be objective and free from undue influence (independent);
- Align with the strategies, objectives and risks of the organisation;
- Be appropriately positioned and adequately resourced;
- Demonstrate quality and continuous improvement;
- Communicate effectively;
- Provide risk-based assurance;
- Be insightful, proactive, and future-focused; and
- Promote organisational improvement.

## Authority

5. The Internal Audit function has unrestricted access to all Corporation Council records and information, both manual and computerised, cash, stores and other Corporation Council property or assets it considers necessary to fulfil its responsibilities. Audit may enter Corporation Council property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Right of access to other bodies funded by the Corporation Council should be set out in the conditions of funding.
6. The Internal Audit function will consider all requests from the external auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised, which External Audit would need to discharge their responsibilities

## Responsibility and Accountability

7. Within the City of London Corporation, the Audit and Risk Management Committee will fulfil the functions of the "board", as defined in the Public Sector Internal Audit Standard with the following exceptions:
  - approving decisions regarding the appointment and removal of the Head of Audit, and
  - approving the Internal Audit budget and resource plan.
8. The Chamberlain as Section 151 Officer is responsible under statute for the proper administration of the financial affairs of the City of London including compliance with the statutory requirements for accounting and internal audit.

The CIPFA Statement on the Role of the Chief Financial Officer in Local Government states that the Chief Finance Officer must:

- ensure an effective internal audit function is resourced and maintained;
  - ensure that the authority has put in place effective arrangements for internal audit of the control environment;
  - support the authority's internal audit arrangements; and
  - ensure that the audit committee receives the necessary advice and information, so that both functions can operate effectively.
9. The Head of Audit and Risk Management is the person designated by the Corporation to fulfil the role of the Chief Audit Executive (as required by the PSIAS) and is required to provide an annual opinion to the Corporation and to the Chamberlain (Chief Financial Officer), through the Audit and Risk Management Committee, on the adequacy and effectiveness of the internal control system for the whole [Corporation Council](#). In order to achieve this, the Internal Audit function has the following objectives:
- Provide a quality, independent and objective audit service that effectively meets the [Corporation Council](#)'s needs, adds value, improves operations and helps protect public resources;
  - Provide assurance to management that the [Corporation Council](#)'s operations are being conducted in accordance with external regulations, legislation, internal policies and procedures;
  - Provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes;
  - Provide assurance that significant risks to the [Corporation Council](#)'s objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process;
  - Provide advice and support to management to enable an effective control environment to be maintained;
  - Promote an anti-fraud, anti-bribery and anti-corruption culture within the [Corporation Council](#) to aid the prevention and detection of fraud;
  - Investigate allegations of fraud, bribery and corruption.
10. Even sound systems of internal control can only provide reasonable and not absolute, assurance, and may not prevent collusive fraud. Internal Audit procedures are designed to focus on areas identified by the organisation as being of greatest risk and significance and rely on management to provide full access to accounting records and transactions for the purposes of audit work and to ensure the authenticity of these documents.

11. The remit of Internal Audit covers the entire control environment of the Organisation. Where appropriate, Internal Audit will undertake audit or consulting work for the benefit of the [Corporation Council](#) in organisations wholly or partly owned by the [Corporation Council](#). Internal Audit may also provide assurance to the [Corporation Council](#) on third party operations (such as contractors and partners) where this has been provided for as part of the contract.

## Reporting

12. The UK PSIAS requires the Head of Audit and Risk Management to report at the top of the organisation and this is done in the following ways:

- The Internal Audit Strategy and Charter and any amendments to them are reported to the Audit and Risk Management Committee.
- The annual Internal Audit Plan is compiled by the Head of Audit and Risk Management, taking account of the [Corporation Council](#)'s risk framework and after input from members of the Senior Management. It is then presented to the Audit and Risk Management Committee annually for noting and comment.
- The adequacy, or otherwise, of the level of internal audit resources, as determined by the Head of Audit and Risk Management, and the independence of internal audit will be reported annually to the Audit and Risk Management Committee. The approach to providing resource is set out in the Internal Audit Strategy.
- Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work are reported to the Audit and Risk Management Committee on a quarterly basis.
- Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Audit and Risk Management Committee.
- Results from internal audit's Quality Assurance and Improvement Programme will be reported to the Audit and Risk Management Committee.
- Any instances of non-conformance with the PSIAS must be reported to the Audit and Governance Committee, and will be included in the annual report from the Head of Audit and Risk Management. If there is significant non-conformance this may be included in the Corporation's Annual Governance Statement.

## Independence

13. The Head of Audit and Risk Management has free and unfettered access to the following:
- The Chief Financial Officer (Chamberlain);
  - Chief Executive (Town Clerk);
  - Chair of the Audit and Risk Management Committee;
  - The Monitoring Officer, and
  - Any other member of the Chief Officers Group.
14. Although line-managed by the Chamberlain, Head of Audit and Risk Management has direct access to the Town Clerk, Comptroller and City Solicitor, and the Audit and Risk Management Committee Chairman. Additional professional and managerial support is provided by the Chamberlain's Business Support Director.
15. In addition to reporting formally to members at Audit and Risk Management Committee meetings, the Head of Audit & Risk Management has access to all members of City of London Committees in the reporting and discussion of internal audit work and will meet quarterly with the Chairman and Deputy Chairman of the Audit & Risk Management Committee.
16. The Chamberlain, as line manager for the Head of Audit & Risk Management, is responsible for undertaking the performance appraisal of the Head of Audit. The independence of the Head of Audit and Risk Management is safeguarded by ensuring that those subject to audit do not inappropriately influence the annual appraisal of the post holder. This PSIAS requirement will be achieved through the Town Clerk contributing feedback to the performance appraisal of the Head of Audit and Risk Management and that feedback is also sought from the Chairman of the Audit and Risk Management Committee.
17. The Audit and Risk Management Committee would be consulted through the Chairman of the Committee in the appointment and removal of the Head of Audit and Risk Management. The Internal Audit section budget is approved as part of the Finance Committee's consideration of the overall Chamberlain's Departmental Budget. The Audit and Risk Management Committee is provided regular updates on the availability and utilisation of internal audit resources and seeks assurances as to their adequacy.
18. All [Corporation Council](#) and contractor staff in the Internal Audit, Risk Management and Anti-Fraud team are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed.
19. In addition, both the Corporation and the Audit contractor staff have stringent procedures in place relating to the acceptance of gifts and hospitality and the prevention of bribery.

## Provision of Consultancy through Advice and Guidance

20. The Team provides advice and guidance to management on governance, risk and control. In particular, it engages with the City's Corporate and Departmental change projects providing expert independent and objective advice on the design of internal controls. The extent and nature of this involvement is controlled, so that the independence of future internal audit assurance work is not compromised. The extent of internal audit advice and guidance is specified within the forward audit plans of the section, which are agreed annually by the Audit and Risk Management Committee. Any significant variations to this activity will be reported to the Audit and Risk Management Committee for agreement.

## Provision of Assurance to outside Bodies

21. The City of London [Corporation](#) Internal ~~a~~Audit function provides internal audit services under a service level agreement to London Councils and the Museum of London. Both these organisations utilise other City of London Corporation services in addition to the internal audit function (e.g. payroll). As part of providing an efficient internal audit service to these bodies, Internal Audit may report on the outcomes of audit work on City of London Corporate systems utilised by those outside bodies, once findings and outcomes have been agreed with the relevant Chief Officer. In addition, Internal Audit will occasionally provide assurance to Central Government on the appropriate use of ring-fenced grants or performance returns where required by grant conditions.

## Non-Audit Areas:

22. The Internal Audit Section is also responsible for the following non-audit areas:

**Risk Management** - Providing risk management support to the City of London by promoting the consistent use of risk management and ownership of risk at all levels within the City. This will be achieved through the development and review of the risk management framework, including facilitation of the City of London Strategic Risk Register.

**Fraud and Corruption** - Promoting fraud awareness and maintaining an effective anti-fraud and corruption function, acting as a central function for the investigation of irregularities and, where criminal investigation is considered appropriate, to liaise directly with the Police and advise departments on such matters. The Section plays a specific anti-fraud and investigation role in relation to Housing Tenancy Fraud and the investigation of serious whistleblowing concerns raised through the City of London Whistleblowing policy.

23. Where the Head of Audit and Risk Management has non-audit responsibilities, independent assurance as to the adequacy and effectiveness

of these arrangements will be provided to senior management and the Audit & Risk Management Committee through periodic external assessment. The findings from these assessments will be reported independently of the Head of Audit and Risk Management to the Business Support Director and Chamberlain initially prior to reporting to Committee.

24. Internal audit procedures prohibits internal auditors from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

### **Due Professional Care**

25. The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics and the core principles for internal audit;
- The relevant Codes of Ethics for the professional bodies that members of the Internal audit service are members of (i.e. the Chartered Institute of Internal Auditors and the accountancy professions that constitute the CCAB);
- Seven Principles of Public Life (Nolan Principles);
- UK Public Sector Internal Audit Standards;
- The CIPFA Local Government Application Note (LGAN);
- All Corporation Council Policies and Procedures;
- All relevant legislation.

26. Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK PSIAS; on-going performance monitoring; and an external assessment at least once every five years by a suitably qualified, independent assessor.

27. A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. The Head of Audit and Risk Management is required to hold a relevant professional qualification (CCAB or CMIIA) or be suitably experienced. The Head of Audit and Risk Management will ensure that the internal audit service has access to an appropriate range of knowledge, skills, personal attributes, qualifications,

experience and competencies required to perform and deliver its responsibilities.

Approved by the Audit and Risk Management Committee on ~~23-6 May~~ March 2017~~8~~.  
Due for revision and annual approval March 2019~~8~~.

**CITY OF LONDON**

**INTERNAL AUDIT**

**Audit Charter**

1. This Charter sets out the purpose, authority, and responsibility of the Corporation's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards (2016) and the CIPFA Local Government Application Note (LGAN).

The Charter will be reviewed annually and presented to the Audit and Risk Management Committee for approval.

The Internal Audit, Risk Management and Anti-Fraud functions at the City of London Corporation are provided to a number of bodies, including the City of London Police, the Barbican Centre, the Guildhall School of Music and Drama, and the Independent Schools. Where reference is made to the Corporation, these bodies will be deemed to be included in the objectives and requirements of this Charter.

**Internal Audit Standards**

2. Public Sector Internal Audit Standards (PSIAS), which came into effect on 1 April 2013 and revised in 2016 are mandatory and underpin the Internal Audit arrangements within the City of London Corporation. These requirements include the definition of internal auditing, Code of Ethics and the Standards themselves. The Head of Audit and Risk Management will report on conformance with the PSIAS in his annual report. An independent peer review will be undertaken at least every five years to assess the internal audit functions compliance with these standards.

**Definition of Internal Audit**

3. The Public Sector Internal Audit Standard mandatory definition of internal auditing, as specified by the Institute of Internal Auditors' International Professional Practices Framework (IPPF), has been adopted by the City of London Corporation as follows:

"Internal auditing is an independent, objective assurance and consulting (*advisory*) activity designed to add value and improve an organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

## **Mission and Core Principles**

4. The IPPF's overarching "Mission" for Internal Audit services is: "...to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight".

The "Core Principles" that underpin delivery of the IPPF mission require internal audit functions to:

- Demonstrate integrity;
- Be objective and free from undue influence (independent);
- Align with the strategies, objectives and risks of the organisation;
- Be appropriately positioned and adequately resourced;
- Demonstrate quality and continuous improvement;
- Communicate effectively;
- Provide risk-based assurance;
- Be insightful, proactive, and future-focused; and
- Promote organisational improvement.

## **Authority**

5. The Internal Audit function has unrestricted access to all Corporation records and information, both manual and computerised, cash, stores and other Corporation property or assets it considers necessary to fulfil its responsibilities. Audit may enter Corporation property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Right of access to other bodies funded by the Corporation should be set out in the conditions of funding.
6. The Internal Audit function will consider all requests from the external auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised, which External Audit would need to discharge their responsibilities

## **Responsibility and Accountability**

7. Within the City of London Corporation, the Audit and Risk Management Committee will fulfil the functions of the "board", as defined in the Public Sector Internal Audit Standard with the following exceptions:
  - approving decisions regarding the appointment and removal of the Head of Audit, and
  - approving the Internal Audit budget and resource plan.

8. The Chamberlain as Section 151 Officer is responsible under statute for the proper administration of the financial affairs of the City of London including compliance with the statutory requirements for accounting and internal audit. The CIPFA Statement on the Role of the Chief Financial Officer in Local Government states that the Chief Finance Officer must:
  - ensure an effective internal audit function is resourced and maintained;
  - ensure that the authority has put in place effective arrangements for internal audit of the control environment;
  - support the authority's internal audit arrangements; and
  - ensure that the audit committee receives the necessary advice and information, so that both functions can operate effectively.
  
9. The Head of Audit and Risk Management is the person designated by the Corporation to fulfil the role of the Chief Audit Executive (as required by the PSIAS) and is required to provide an annual opinion to the Corporation and to the Chamberlain (Chief Financial Officer), through the Audit and Risk Management Committee, on the adequacy and effectiveness of the internal control system for the whole Corporation. In order to achieve this, the Internal Audit function has the following objectives:
  - Provide a quality, independent and objective audit service that effectively meets the Corporation's needs, adds value, improves operations and helps protect public resources;
  - Provide assurance to management that the Corporation's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures;
  - Provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes;
  - Provide assurance that significant risks to the Corporation's objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process;
  - Provide advice and support to management to enable an effective control environment to be maintained;
  - Promote an anti-fraud, anti-bribery and anti-corruption culture within the Corporation to aid the prevention and detection of fraud;
  - Investigate allegations of fraud, bribery and corruption.

10. Even sound systems of internal control can only provide reasonable and not absolute, assurance, and may not prevent collusive fraud. Internal Audit procedures are designed to focus on areas identified by the organisation as being of greatest risk and significance and rely on management to provide full access to accounting records and transactions for the purposes of audit work and to ensure the authenticity of these documents.
11. The remit of Internal Audit covers the entire control environment of the Organisation. Where appropriate, Internal Audit will undertake audit or consulting work for the benefit of the Corporation in organisations wholly or partly owned by the Corporation. Internal Audit may also provide assurance to the Corporation on third party operations (such as contractors and partners) where this has been provided for as part of the contract.

## Reporting

12. The UK PSIAS requires the Head of Audit and Risk Management to report at the top of the organisation and this is done in the following ways:
  - The Internal Audit Strategy and Charter and any amendments to them are reported to the Audit and Risk Management Committee.
  - The annual Internal Audit Plan is compiled by the Head of Audit and Risk Management, taking account of the Corporation's risk framework and after input from members of the Senior Management. It is then presented to the Audit and Risk Management Committee annually for noting and comment.
  - The adequacy, or otherwise, of the level of internal audit resources, as determined by the Head of Audit and Risk Management, and the independence of internal audit will be reported annually to the Audit and Risk Management Committee. The approach to providing resource is set out in the Internal Audit Strategy.
  - Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work are reported to the Audit and Risk Management Committee on a quarterly basis.
  - Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Audit and Risk Management Committee.
  - Results from internal audit's Quality Assurance and Improvement Programme will be reported to the Audit and Risk Management Committee.
  - Any instances of non-conformance with the PSIAS must be reported to the Audit and Governance Committee, and will be included in the annual report from the Head of Audit and Risk Management. If there is significant

non-conformance this may be included in the Corporation's Annual Governance Statement.

## **Independence**

13. The Head of Audit and Risk Management has free and unfettered access to the following:
  - The Chief Financial Officer (Chamberlain);
  - Chief Executive (Town Clerk);
  - Chair of the Audit and Risk Management Committee;
  - The Monitoring Officer, and
  - Any other member of the Chief Officers Group.
  
14. Although line-managed by the Chamberlain, Head of Audit and Risk Management has direct access to the Town Clerk, Comptroller and City Solicitor, and the Audit and Risk Management Committee Chairman. Additional professional and managerial support is provided by the Chamberlain's Business Support Director.
  
15. In addition to reporting formally to members at Audit and Risk Management Committee meetings, the Head of Audit & Risk Management has access to all members of City of London Committees in the reporting and discussion of internal audit work and will meet quarterly with the Chairman and Deputy Chairman of the Audit & Risk Management Committee.
  
16. The Chamberlain, as line manager for the Head of Audit & Risk Management, is responsible for undertaking the performance appraisal of the Head of Audit. The independence of the Head of Audit and Risk Management is safeguarded by ensuring that those subject to audit do not inappropriately influence the annual appraisal of the post holder. This PSIAS requirement will be achieved through the Town Clerk contributing feedback to the performance appraisal of the Head of Audit and Risk Management and that feedback is also sought from the Chairman of the Audit and Risk Management Committee.
  
17. The Audit and Risk Management Committee would be consulted through the Chairman of the Committee in the appointment and removal of the Head of Audit and Risk Management. The Internal Audit section budget is approved as part of the Finance Committee's consideration of the overall Chamberlain's Departmental Budget. The Audit and Risk Management Committee is provided regular updates on the availability and utilisation of internal audit resources and seeks assurances as to their adequacy.

18. All Corporation and contractor staff in the Internal Audit, Risk Management and Anti-Fraud team are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed.
19. In addition, both the Corporation and the Audit contractor staff have stringent procedures in place relating to the acceptance of gifts and hospitality and the prevention of bribery.

### **Provision of Consultancy through Advice and Guidance**

20. The Team provides advice and guidance to management on governance, risk and control. In particular, it engages with the City's Corporate and Departmental change projects providing expert independent and objective advice on the design of internal controls. The extent and nature of this involvement is controlled, so that the independence of future internal audit assurance work is not compromised. The extent of internal audit advice and guidance is specified within the forward audit plans of the section, which are agreed annually by the Audit and Risk Management Committee. Any significant variations to this activity will be reported to the Audit and Risk Management Committee for agreement.

### **Provision of Assurance to outside Bodies**

21. The City of London Corporation Internal Audit function provides internal audit services under a service level agreement to London Councils and the Museum of London. Both these organisations utilise other City of London Corporation services in addition to the internal audit function (e.g. payroll). As part of providing an efficient internal audit service to these bodies, Internal Audit may report on the outcomes of audit work on City of London Corporate systems utilised by those outside bodies, once findings and outcomes have been agreed with the relevant Chief Officer. In addition, Internal Audit will occasionally provide assurance to Central Government on the appropriate use of ring-fenced grants or performance returns where required by grant conditions.

### **Non-Audit Areas:**

22. The Internal Audit Section is also responsible for the following non-audit areas:

**Risk Management** - Providing risk management support to the City of London by promoting the consistent use of risk management and ownership of risk at all levels within the City. This will be achieved through the development and review of the risk management framework, including facilitation of the City of London Strategic Risk Register.

**Fraud and Corruption** - Promoting fraud awareness and maintaining an effective anti-fraud and corruption function, acting as a central function for the investigation of irregularities and, where criminal investigation is considered appropriate, to liaise directly with the Police and advise departments on such matters. The Section plays a specific anti-fraud and investigation role in relation to Housing Tenancy Fraud and the investigation of serious whistleblowing concerns raised through the City of London Whistleblowing policy.

23. Where the Head of Audit and Risk Management has non-audit responsibilities, independent assurance as to the adequacy and effectiveness of these arrangements will be provided to senior management and the Audit & Risk Management Committee through periodic external assessment. The findings from these assessments will be reported independently of the Head of Audit and Risk Management to the Business Support Director and Chamberlain initially prior to reporting to Committee.
24. Internal audit procedures prohibit internal auditors from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

### **Due Professional Care**

25. The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics and the core principles for internal audit;
- The relevant Codes of Ethics for the professional bodies that members of the Internal audit service are members of (i.e. the Chartered Institute of Internal Auditors and the accountancy professions that constitute the CCAB);
- Seven Principles of Public Life (Nolan Principles);
- UK Public Sector Internal Audit Standards;
- The CIPFA Local Government Application Note (LGAN);
- All Corporation Policies and Procedures;
- All relevant legislation.

26. Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK PSIAS; on-going performance monitoring; and an external assessment at least once every five years by a suitably qualified, independent assessor.

27. A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. The Head of Audit and Risk Management is required to hold a relevant professional qualification (CCAB or CMIIA) or be suitably experienced. The Head of Audit and Risk Management will ensure that the internal audit service has access to an appropriate range of knowledge, skills, personal attributes, qualifications, experience and competencies required to perform and deliver its responsibilities.

Approved by the Audit and Risk Management Committee on 6 March 2018. Due for revision and annual approval March 2019.

<b>Committee(s)</b>	<b>Dated:</b>
Audit and Risk Management Committee	06 March 2018
<b>Subject:</b> Annual Governance Statement – Methodology	<b>Public</b>
<b>Report of:</b> The Town Clerk and the Chamberlain	<b>For Decision</b>
<b>Report author:</b> Tom Conniffe, Corporate Performance Manager	

## Summary

The City of London Corporation is required to conduct a review at least once a year of the effectiveness of its system of internal control and publish an Annual Governance Statement (AGS) alongside the annual Statement of Accounts.

This report proposes that the production of the AGS for 2017/18 follows the process established in previous years and drafted jointly by officers from the Town Clerk’s and Chamberlain’s Departments to reflect the need for corporate ownership. As part of this process, officers will consider the progress made in implementing the future developments identified in last year’s AGS.

The draft AGS will be presented for approval to this Committee in May 2018, accompanied by a schedule of supporting evidence. If approved, it will be signed by the Chairman of the Policy and Resources Committee and the Town Clerk and Chief Executive.

## Recommendation(s)

Members are asked to:

- Consider and approve the methodology set out in this report for the production and presentation of the Annual Governance Statement for 2017/18, and
- Consider whether any additional areas should be added to the Annual Governance Statement for 2017/18.

## Main Report

### Background

1. The AGS is required by the Accounts and Audit Regulations 2015 and prepared in accordance with proper practice guidance. It has to be approved each year by an appropriate committee of the authority and signed by the most senior member and the most senior officer. In 2012, the Policy and Resources Committee considered a report on the process for producing the AGS, and approved the practice whereby the AGS is approved by the Audit and Risk

Committee and then signed by the Chairman of the Policy and Resources Committee and the Town Clerk and Chief Executive.

2. The AGS is published on the City of London website, and reviewed by an external auditor. The external auditor is required to report if the AGS does not comply with proper practices, or if it is misleading or inconsistent with other information the external auditor is aware of from the audit of the Statement of Accounts. To date the external auditor has been content with the City Corporation's AGS.

### **Current Position**

3. The AGS for 2016/17 was approved by Audit and Risk Committee in July 2017, ahead of the publication of the Statement of Accounts in September 2017. A supporting schedule of assurances was also presented to your Committee. This report outlines the proposed methodology for the production of the AGS for the financial year 2017/18.

### **Proposals**

#### Format:

4. It is proposed that the AGS for 2017/18 will follow a similar format to that used in previous years. This includes standard paragraphs in the first two sections: Scope of Responsibility and The Purpose of the Governance Framework. The other sections generally follow a standard structure with a description of the key controls/processes followed by a summary of key developments during the year. The AGS also includes a section on the work of the Audit and Risk Management Committee. An outline of the draft 2017/18 AGS, following this format, is attached at Appendix 1.
5. It is proposed that the draft AGS be presented to this Committee in the same format as last year, i.e. showing all of the additions, amendments and deletions as "track changes" from the approved and published 2016/17 statement.

**Members are requested to approve these proposals for the production and presentation of the Annual Governance Statement for 2017/18.**

#### Content:

6. The AGS is concerned with corporate controls and governance, rather than being confined to financial issues. To emphasise the need for corporate ownership, the AGS will be produced jointly by officers from the Town Clerk's and Chamberlain's Departments, as in previous years.
7. In producing the statement, officers will review the balance between the standing information on the internal control framework, and changes implemented during 2017/18, taking into consideration the overall length of the statement. The outcomes in respect of the Future Developments identified in the 2016/17 AGS (listed in Appendix 1) will be incorporated into the relevant sections.

8. In previous years, Members have made suggestions as to additional items that should be included in the AGS.

**Members are requested to consider whether any additional areas should be added to the AGS for 2017/18.**

Timetable:

9. In recognition of the importance of the AGS as a corporate document, CIPFA states that it is essential that there is buy-in at the top level of the authority. It is therefore proposed to present the draft AGS as follows:
  - April 30: Summit Group.
  - May 29: Audit and Risk Management Committee

Supporting Evidence:

10. It is proposed that an updated supporting schedule of assurances is presented to Members with the draft AGS, in the same format as that used in 2016/17. This demonstrates the wide range of on-going assurance provided to Members generally during the period covered by the AGS. In particular, this will provide assurance to Members of the Audit and Risk Management Committee regarding governance issues that fall within the remit of other Boards or Committees.

### **Delivering Good Governance in Local Government**

11. Following consultation in 2015, CIPFA and Solace introduced a new governance framework for local government in 2016. The framework requires councils to produce an AGS, published with the annual accounts, to report publicly on how they have complied with their governance code and describe any governance issues, including how they will be addressed.
12. The framework states that an AGS should include:
  - an acknowledgement of responsibility for ensuring that there is a sound system of governance (incorporating the system of internal control) and reference to the authority's code of governance;
  - reference to and assessment of the effectiveness of key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment, such as the authority, the executive, the audit committee, internal audit and others as appropriate;
  - an opinion on the level of assurance that the governance arrangements can provide and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework;
  - an agreed action plan showing actions taken, or proposed, to deal with significant governance issues;
  - reference to how issues raised in the previous year's AGS have been resolved, and
  - a conclusion – a commitment to monitoring implementation as part of the next annual review.
13. The framework also states that the AGS should be signed by the leading member (or equivalent) and chief executive (or equivalent) on behalf of the authority, and

should be approved at a meeting of the authority or delegated committee. Local authorities are required to include the AGS with their statement of accounts.

### **Appendices**

- Appendix 1 – Outline Annual Governance Statement 2017/18

### **Background Papers**

- CIPFA/SOLACE - Delivering good governance in Local Government:
  - Framework (2016 Edition)
  - Guidance Note for English Authorities (2016 Edition)

### **Tom Conniffe**

Corporate Performance Manager

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## ANNUAL GOVERNANCE STATEMENT 2017/18: OUTLINE

### Scope of Responsibility

1. The City of London Corporation is the governing body of the Square Mile dedicated to a vibrant and thriving City, supporting a diverse and sustainable London within a globally-successful UK. It aims to contribute to a flourishing society, support a thriving economy and support outstanding environments. Its unique franchise arrangements support the achievement of these aims.
2. Although this statement has been prepared to reflect the City of London Corporation in its capacity as a local authority and police authority, the governance arrangements are applied equally to its other funds – City’s Cash and Bridge House Estates.
3. The City of London Corporation (“the City”) is responsible for ensuring that its business is conducted in accordance with the law and proper standards; that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively; and that arrangements are made to secure continuous improvement in the way its functions are operated.
4. In discharging this overall responsibility, the City is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
5. The City has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on the City’s website at [www.cityoflondon.gov.uk](http://www.cityoflondon.gov.uk). This statement explains how the City has complied with the code and also meets the requirements of regulation 6(1) of the Accounts and Audit (England) Regulations 2015 which requires all relevant bodies to prepare an annual governance statement.

### The Purpose of the Governance Framework

6. The governance framework comprises the systems and processes by which the City is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the City to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
7. The system of internal control is a significant part of that framework and is designed to manage all risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable rather than absolute assurance of effectiveness. The City’s system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the City’s policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
8. The governance framework has been in place at the City for the year ended 31 March 2018 and up to the date of approval of the statement of accounts.

### Key Elements of the Governance Framework

Code of Corporate Governance

Standards Committee

Business Strategy and Planning Process

Information Management Strategy

Financial Management Arrangements

Risk Management

Health & Safety

Business Continuity  
Role of Internal Audit  
Performance Management  
Audit and Risk Management Committee

## Review of Effectiveness

### Head of Internal Audit's Opinion

### Future Developments

**NB:** These are the future Developments from the 2016/17 Annual Governance Statement (see paragraph 8 of the covering report):

- Review the City Corporation's governance arrangements against the requirements of the CIPFA/Solace framework, "Delivering Good Governance in Local Government".
- Develop a refreshed Corporate Plan, for the period 2018-23, setting out a set of overarching goals for the organisation which will prioritise activity over the medium term and thereby achieve more in the context of reducing budgets.
- Review the framework for departmental business planning and performance management to ensure that all work carried out contributes to delivery of the outcomes in the refreshed Corporate Plan.
- Introduce a programme of Chief Officer peer reviews, to assist in developing a culture of innovation, agility, collaboration and continuous improvement.
- Undertake an annual update for the registration and publication of declarations of interest by the City's Members and Co-opted Members following the March 2017 Ward elections.
- Deliver the benefits from the programme of cross-cutting efficiency and effectiveness reviews resulting from the service based review.
- Complete the review of information security and management, leading to: the identification of Information Asset Owners; the production of an information asset register; the development of an Information Management Policy, and the implementation of an appropriate Data Classification Scheme.
- Develop a risk appetite for the City Corporation, linked to the City's objectives and the external environment, which reflects the City's capacity to manage risk and willingness to take risk in order to meet the strategic objectives.
- Review project and programme governance arrangements, to improve the handling of corporate and departmental projects, including reviewing the terms of reference of relevant governance groups and a process for escalating risks to the appropriate levels.

This annual governance statement was approved by the City's Audit and Risk Management Committee on **xxxxxxx**.

John Barradell  
 Town Clerk and Chief Executive

Date:

Catherine McGuinness  
 Chairman, Policy and Resources  
 Committee

Date:



MOORE STEPHENS



# City of London Corporation

REPORT TO THOSE CHARGED WITH GOVERNANCE  
MARCH 2018

## Bridge House Estates, City's Cash, City's Cash Trusts, the Corporations Sundry Trusts & Other Accounts

External Audit Strategy & Planning Report on the 2017-18 Financial Statements

[www.moorestephens.co.uk](http://www.moorestephens.co.uk)

PRECISE. PROVEN. PERFORMANCE.

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# 1 Introduction

The City of London Corporation has appointed Moore Stephens as external auditors to Bridge House Estates, City's Cash, City's Cash Trusts, the Corporation's Sundry Trusts & other accounts, for the 2017-18 financial year following the four year period 2013-14 to 2016-17. A full list of the charities and entities covered by this plan is included in Appendix 1. This document comprises our audit strategy and approach for the 2017-18 external audit, the fifth year of our appointment.

Our audit is designed to allow us to give an opinion on whether the financial statements are 'true and fair' and where applicable have been prepared in accordance with the requirements of United Kingdom Generally Accepted Accounting Practice – FRS 102 and the Charities Act 2011 as appropriate.

## 1.1 Purpose of the plan

The plan sets out the ways in which the City of London Corporation's City's Cash and the Corporation's charities and Moore Stephens will meet their respective responsibilities. The plan summarises:

- the responsibilities of the Corporation and the auditors;
- our audit approach;
- our assessment of key risk areas facing City's Cash and the Corporation's charities, and the impact of these risks on our audit;
- our liaison with internal audit;
- our timetable and the fee for the audit; and
- background to the Moore Stephens audit team.

## 1.2 Adding value through the audit

All of our clients quite rightly demand from us a positive contribution to meeting their ever-changing business needs.

We hope that our audit work will add value to the Corporation by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help the Corporation promote improved standards of governance, better management and decision making and more effective use of public money. To this end we have already engaged with the Corporation to understand how we, and the Corporation, can work more effectively to improve our service during the 2017-18 audit.

Any comments you may have on the service we provide would be greatly appreciated.

## 1.3 Actions for the Audit and Risk Management Committee

The Audit and Risk Management Committee is invited to consider and discuss:

- whether our assessment of the risks of material misstatement to the financial statements are appropriate and complete;
- our proposed audit plan to address these risks; and
- whether the financial statements could be materially misstated due to fraud, and communicate any areas of concern to management and the audit team.

**Nick Bennett**

**Engagement Lead**

[nick.bennett@moorestephens.com](mailto:nick.bennett@moorestephens.com)

**Moore Stephens LLP**

## 2 Scope of our work

### 2.1 Introduction

We set out below an outline of the nature and scope of the work we propose to undertake and the form of the report we expect to make, including where relevant, any limitations thereon.

As you are aware, we issue an opinion at the end of the audit as to whether the financial statements give a true and fair view of the state of affairs at the period end, of the results for the period then ended, and that the financial statements have been properly prepared in accordance with accounting standards and underlying legislation.

It is the responsibility of management and those charged with governance to prevent and detect fraud. In planning and performing the audit we need to consider the risk of material misstatement in the financial statements, including that due to fraud. We have made initial enquiries of management with regard to their assessment of the risk that the financial statements may be materially misstated due to fraud. The assessment of risk will be re-confirmed as part of our audit completion procedures before forming our opinion on the financial statements.

Consequently, we consider the risk of your financial statements being misstated and/or not being prepared in accordance with accounting standards and underlying legislation. We then direct our work toward areas of the accounts which could contain material misstatements. Auditors do not examine every item in a group of transactions or balances but instead select a sample of those transactions or balances for examination. The level of testing we carry out is based on our assessment of risk. We also document and review your systems, partly to confirm they form an adequate basis for the preparation of the accounts, but also to identify the controls operated to ensure the completeness and accuracy of the data.

### 2.2 Scope of the Audit

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK and Ireland)). These standards represent best practice in auditing, thereby increasing public confidence in the audit process.

As part of the audit we will review the information published with the financial statements, including information contained in each of the Trustee's Annual Reports. We will report to you if, in our opinion, the published information given is inconsistent in any material respect with the financial statements.

### 2.3 Respective Responsibilities

In line with ISAs (UK and Ireland) we are required to agree the respective responsibilities of the City of London Corporation and Moore Stephens. These responsibilities are set out in our Letter of Engagement dated November 2013. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

### 2.4 Trustee's Responsibilities for the Corporation's charities

The Trustee is responsible for preparing the Trustee's Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards - FRS 102.

The law applicable to charities in England & Wales requires the Trustee to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the charity and of the incoming resources of the charity for that period. In preparing these financial statements, the Trustee is required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP FRS 102;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.

The Trustee is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the charity and to ensure that the financial statements comply with the Charities Act 2011, the Charity (Accounts and Reports) Regulations 2008 and the provisions of the charity's governing document. It is also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## 2.5 Corporation of London responsibilities for City's Cash

The City of London Corporation is responsible for preparing the City's Cash financial statements in accordance with United Kingdom Accounting Standards - FRS 102. It is also responsible for keeping proper accounting records and safeguarding assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## 2.6 Report on matters by exception

Moore Stephens is also obliged to report on a number of matters by exception. These include whether adequate accounting records have been kept, and whether all information required for the audit has been provided.

## 2.7 Accounting estimates and related parties

ISAs (UK and Ireland) require us to consider the risk of material misstatement in respect of accounting estimates made by management. We have considered whether any significant risks exist and these are set out in the Significant Risk section of this report. We will work with management to identify any accounting estimates that may be made and we will assess whether any of these pose a significant risk of material misstatement.

We are also required to perform audit procedures to identify, assess and respond to the risks of material misstatement that may arise from failure to account for or disclose related party relationships appropriately.

## Other matters

### 2.8 Materiality

Materiality is an expression of the relative significance of a matter in the context of the annual accounts as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. Our initial calculation of materiality for the entities and funds covered by this plan is included in Appendix 1.

We set a performance (testing) materiality for each area of work which is based on a risk assessment for the area. We will perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be of significant risk of material misstatement. Where the area risk assessment is high, a lower performance materiality is applied, which in turn increases the sample size applied to testing.

Area risk assessment	Percentage of materiality applied
High	40% - 50%
Medium	50% - 60%
Low	60% - 75%

We will report any misstatements identified through our audit that fall into one of the following categories:

- All material corrected misstatements;
- Uncorrected misstatements with a value in excess of 1% of the overall materiality figure; and
- Other misstatements below the 1% threshold that we believe warrant reporting on qualitative grounds.

### 2.9 Independence

Moore Stephens complies with relevant ethical requirements regarding independence and has developed safeguards and procedures in order to ensure our independence and objectivity. Please see the confirmation provided at 7.4 below.

We will reconfirm our independence and objectivity to the Audit and Risk Management Committee following the completion of the audit.

### 3 Our audit approach

#### 3.1 We plan to address significant risks of material misstatement in the financial statements

Our approach to the audit of financial statements uses a range of techniques to obtain audit evidence and assurance and is based on a thorough understanding of the organisation.

This understanding allows us to develop an audit strategy which focuses on addressing specific risks whilst providing an acceptable level of assurance across the financial statements as a whole.

#### 3.2 Outline of our general audit approach

Our audit of the financial statements can be split into three phases:



An overview of the inputs into each of the three audit approach phases, the work we undertake and our planned outputs is provided below.

#### 3.3 The three phases of the audit

##### 1. Developing the audit plan

###### Input

**MS Team in consultation with:**  
 Management  
 Audit & Risk Management Committee  
 Internal Audit  
 Key Stakeholders

###### Objective

- Understanding internal and external developments
- Understanding the risks facing the organisation
- Understanding the key processes, the controls in place and the assurance we intend to gain from those controls

###### Output

**External Audit Strategy & Planning Report**

##### 2. Performing the audit

###### Input

**Testing of transactions and balances**  
 Substantive testing of transactions, balances and testing of disclosures

###### Objective

- To obtain assurance over the significant risks identified as part of the audit planning stage
- To gain assurance that account balances, transactions and disclosures are not materially misstated
- To gain assurance that the financial statements are prepared in accordance with the relevant financial reporting framework

###### Output

**Completion of audit work in line with the plan**

##### 3. Concluding and reporting

###### Input

**Results of audit work**

###### Objective

- Issuing the audit opinion(s) to the Trustee / City of London Corporation
- Confirming that the audit team has remained independent and objective throughout the engagement
- Reporting matters of governance interest and other findings from our audit

###### Output

**Audit Opinions**  
**Management Report on the Financial Statements Audit**

### **3.4 Using the work of internal audit**

We will liaise closely with internal audit throughout the audit process and will review their work to inform our risk assessment. We also carry out a review of the internal audit structure and function in accordance with International Standard on Auditing (UK and Ireland) 610. We will review internal audit's plans and aim to place reliance where the nature, timing and work performed is suitable to support our opinion.

### **3.5 Error reporting threshold**

For reporting purposes, we will treat any misstatements below 1% of materiality in each individual account as "trivial", subject to a de-minimis limit of £1,000, and therefore not requiring consideration by the Audit and Risk Management Committee. Please note that this is a separate threshold to our consideration of materiality by value, which is used in forming the audit opinion.

## 4 Findings from the audit

We expect to communicate the following to you:

### 4.1 Proposed modifications to our report

As you would expect, we will discuss any proposed modifications to our report with you to ensure that you are aware of the proposed modification and the reasons for it. This will also ensure that there are no disputed facts and enable you to provide us with further information and explanations in respect of any matters giving rise to the proposed modification.

### 4.2 Uncorrected misstatements detected by us

As you are aware, when misstatements identified by us are not corrected we communicate all such uncorrected misstatements, other than those we believe are trivial, to you and request you make the corrections. Where you do not wish to make some or all of the corrections, we shall discuss with you the reasons for, and the appropriateness of, not making those corrections, having regard to qualitative as well as quantitative considerations, and consider the implications for our report of the effect of misstatements which remain uncorrected. We would also consider whether there are any uncorrected misstatements that should be communicated to the Trustee. We are required to obtain a written representation from the Trustee that explains your reasons for not correcting any misstatements brought to your attention by us. A summary of uncorrected misstatements will be included in, or attached to, a letter from you of representations made orally to us.

### 4.3 Significant findings from the audit

We will report to you any observations we may have regarding your systems and other appropriate matters. This report will focus on significant deficiencies that have come to our attention in the course of the audit and therefore will not necessarily cover all of the weaknesses that may exist in the system.

During the course of our audit, we consider the qualitative aspect of the accounting practices, including accounting policies, accounting estimates and financial statement disclosures, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. We would discuss, as necessary, the following items with senior management and the Audit and Risk Management Committee:

- The appropriateness of the accounting policies to the particular circumstances;
- The timing of transactions and the period in which they are recorded;
- The appropriateness of accounting estimates and judgements (for example, in relation to provisions) including the consistency of assumptions and degree of prudence reflected in the accounting records;
- The potential effect on the financial statements of any uncertainties including significant risks and disclosures, such as pending litigation, which are required to be disclosed in the financial statements;
- Material uncertainties related to events and conditions that may cast significant doubt on the ability to continue as a going concern;
- The extent to which the financial statements are affected by any unusual transactions during the period and the extent to which such transactions are separately disclosed in the financial statements;
- Any apparent misstatements in the Trustee's report or material inconsistencies between the reports and the audited financial statements;
- Disagreements about matters that, individually or in aggregate, could be significant to the financial statements or the auditor's report. These communications include consideration of whether the matters have or have not been resolved and the significance of the matters;
- Significant difficulties, if any, encountered during the audit;
- Significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management; and
- Written representations we are requesting from management.

If, during the audit, we identify a fraud or obtain information that indicates a fraud may exist, we shall communicate this to you on a timely basis in order to assist you with your responsibility as regards the prevention and detection of such frauds.

We trust that this approach to the above matters is helpful to you.

#### 4.4 Third parties interested in communications to those charged with governance

Occasionally you may wish to provide third parties, for example bankers, with copies of a written communication from ourselves. We need to ensure that any third parties that see any such communications understand that they were not prepared with them in mind. Therefore, we will normally state in our communications that the report has been prepared for the sole use of the City of London Corporation. It should not be disclosed to a third party, or quoted or referred to without our written consent and no responsibility is assumed by us to any other person. Consequently, we expressly disclaim any liability, howsoever arising, to third parties.

## 5 Significant risks

### 5.1 Risks of material misstatement in the financial statements

As part of our planning, we have held meetings with senior management to discuss their perception of the risks Bridge House Estates, City's Cash, City's Cash Trusts, the Corporation's Sundry Trusts & other accounts currently face. From this we have identified areas of significant audit risk and also areas where we consider that there are risk factors, either of material misstatement or to the delivery of the audit.

### 5.2 Significant issues identified during our audit fieldwork

Significant risks are identified as assessed risks of material misstatement that, in the auditor's judgment, require special audit consideration. Under International Standard on Auditing (UK and Ireland) 240, there are two presumed significant risks of material misstatement – fraud arising from management override of controls; and fraud in revenue recognition. Our initial planning work and discussions with the City of London Corporation senior finance team have also identified two additional significant audit risks in relation to investment property and managed investment valuations and transactions.

Significant audit risk	Audit response
<p><b>Revenue recognition (All funds and entities)</b></p> <p>Under International Standard on Auditing (UK and Ireland) 240, there is a presumed, albeit rebuttable, significant risk of fraud in revenue recognition. We consider this risk cannot be rebutted for income in all organisations.</p>	<p>Our work will include:</p> <ul style="list-style-type: none"> <li>▪ documenting, evaluating and testing the controls which ensure income is completely and accurately recorded, specifically reviewing investment income, rental income from investment properties. We will also assess the accuracy and completeness of education tuition fees, completing analytical procedures to gain assurance over the figures;</li> <li>▪ performing substantive testing of all income stream transactions to confirm accuracy, occurrence, cut-off and completeness, including of significant or unusual transactions; and</li> <li>▪ reviewing the accounting treatment and disclosure of income to ensure that it is in accordance with FRS 102 and the Charities SORP (FRS 102).</li> </ul>
<p><b>Management override (All funds and entities)</b></p> <p>Under International Standard on Auditing (UK and Ireland) 240, there is a presumed significant risk of material misstatement owing to fraud arising from management override of controls.</p>	<p>Our work will include (but shall not be limited to):</p> <ul style="list-style-type: none"> <li>▪ focussed testing of journals incorporating Computer Assisted Audit Techniques (CAATs);</li> <li>▪ review and recalculation of estimates; and</li> <li>▪ review of any significant or unusual transactions in the year.</li> </ul>
<p><b>Investment Property Transactions (Bridge House Estates and City's Cash)</b></p> <p>The Corporation holds a significant portfolio of investment properties. These investments bring about associated risks including that of disclosure, accounting and revaluation.</p> <p>Given the high values associated with investment property transactions, they carry a higher risk of material misstatement.</p>	<p>Our work will include:</p> <ul style="list-style-type: none"> <li>▪ agreeing property valuations to external and city surveyor's supporting documentation ensuring valuation, rights and existence of properties is not materially misstated.</li> <li>▪ review of movements in year and discussions with surveyors to ensure they are in line with expectations of the market and have been accurately and completely recorded.</li> <li>▪ review of supporting documentation to assess and agree the accounting treatments and disclosures made in the financial statements.</li> </ul>

Significant audit risk	Audit response
<p><b>Managed Investments (All funds and entities)</b></p> <p>The Corporation holds a significant portfolio of managed non-property investments. These investments bring about associated risks including that of disclosure, accounting and valuation.</p> <p>Given the high values associated with managed investment valuations and transactions, they carry a higher risk of material misstatement.</p>	<p>Our work will include:</p> <ul style="list-style-type: none"> <li>▪ agreeing managed investment valuation back to investment manager and custodian confirmations ensuring valuation, rights and existence of investments is not materially misstated.</li> <li>▪ review of movements in year and discussions with CoL to ensure they are in line with expectations of the market and have been accurately and completely recorded.</li> <li>▪ review of supporting documentation to assess and agree the accounting treatments and disclosures made in the financial statements.</li> </ul>

### 5.3 Other risk factors

Further to the identification of significant audit risks, we have also identified risk factors which could potentially result in material misstatements. We do not propose, at this stage, to undertake specific audit procedures in response to these perceived risks. We will continue to monitor these areas during the year and adapt our audit approach as necessary.

Risk factor	Audit response
<p><b>Crossrail contribution (City's Cash)</b></p> <p>The 2016-17 City's Cash accounts recognised a commitment of £50m in the financial statements, with expected payment in the 2018-19 and 2019-20 financial years.</p>	<p>Our work will include:</p> <ul style="list-style-type: none"> <li>▪ discussion with officers and review of supporting documentation to assess and agree the accounting treatments and disclosures made in the financial statements; and</li> <li>▪ reviewing and considering the disclosures made in the financial statements to ensure that they remain appropriate and in line with FRS 102 and are materially correct.</li> </ul>

We will review the other accounting systems and management controls only as far as we consider necessary to perform an effective audit. As a result, our review may not detect all deficiencies or all improvements that could be made. Where we do uncover any significant deficiencies or weaknesses we will report these to you, with our recommendations for improvements.

## 6 Audit timetable, fees & our team

### 6.1 Audit timetable

The timetable set out in this section has been agreed in discussion with management during audit planning. Those dates with an asterisk are still to be confirmed.

Item		Timing	Responsibility
<b>All Funds and Entities</b>			
Audit planning meeting		25 January 2018	All
Audit planning visit (5 days fieldwork)		w/c 19 February 2018	Moore Stephens
Audit planning report presented to the Audit and Risk Management Committee		6 March 2018	Moore Stephens
Interim audit visit (5-8 days fieldwork)		w/c 19 March 2018 w/c 26 March 2018	Moore Stephens
Delivery of the 2017-18 Accounts to Moore Stephens	Sundry and Other Trusts	2 July 2018*	City of London Corporation
	Bridge House Estates	4 July 2018*	
	Open Spaces	29 June 2018*	
	City's Cash	10 August 2018*	
Final audit visit commences	Sundry and Other Trusts	16 July 2018*	Moore Stephens
	Bridge House Estates	16 July 2018*	
	Open Spaces	9 July 2018*	
	City's Cash	13 August 2018*	
<b>All Funds and Entities</b>			
Final audit completion meeting with management	Bridge House Estates, Open Spaces, Sundry and Other Trusts City's Cash	30 August 2018*	All
		18 September 2018*	
Members Briefings on Accounts	Bridge House Estates, Open Spaces, Sundry and Other Trusts All funds and entities	w/c 15 October 2018*	City of London Corporation
		w/c 15 October 2018*	
Audit Review Panel Meeting	Bridge House Estates, Open Spaces, Sundry and Other Trusts All funds and entities	w/c 24 September 2018	Audit Review Panel
		w/c 1 October 2018	
Audit Review Panel meeting with the Chamberlain		w/c 8 October 2018*	City of London Corporation
Audit and Risk Management Committee to consider Annual Report and Accounts and Audit Completion Reports		6 November 2018	City of London Corporation
Finance Committee to approve the accounts		13 November 2018	City of London Corporation
Chamberlain signs accounts		13 November 2018	Chamberlain
Signed accounts delivered to Moore Stephens for Audit Certificates to be signed		w/c 19 November 2018	Moore Stephens

## 7.2 Audit fee

The fee for 2017-18 of the bodies covered by this document was originally agreed following a tender process and amounts to £115,000.

Completion of our audit in line with the timetable and fee is dependent upon:

- City of London Corporation delivering a complete Annual Report and Accounts of sufficient quality that have been subject to appropriate internal review on the date agreed;
- City of London Corporation delivering good quality supporting evidence and explanations within the agreed timetable; and
- Appropriate City of London Corporation staff being available during the audit.

If significant issues arise and we are required to perform additional work which would result in a change in our fee, we will discuss this with you as soon as possible.

## 7.3 Key audit staff

<b>Moore Stephens Partner</b>	<b>Nick Bennett</b> Tel: 020 7651 1805 E-mail: <a href="mailto:nick.bennett@moorestephens.com">nick.bennett@moorestephens.com</a>	Nick will have overall responsibility for the audit opinions on Bridge House Estates and Sundry and Other Trusts. Nick will attend Audit & Risk Management Committee meetings as appropriate.
<b>Moore Stephens Partner</b>	<b>Heather Wheelhouse</b> Tel: 07798 653994 E-mail: <a href="mailto:heather.wheelhouse@moorestephens.com">heather.wheelhouse@moorestephens.com</a>	Heather will have overall responsibility for the audit opinions on City's Cash and City's Cash Trusts. Heather will attend Audit & Risk Management Committee meetings as appropriate.
<b>Moore Stephens Senior Manager</b>	<b>Tharshiha Thayabaran</b> Tel: 020 7651 1523 E-mail: <a href="mailto:tharshiha.thayabaran@moorestephens.com">tharshiha.thayabaran@moorestephens.com</a>	Tharshiha will be responsible for the audit of Bridge House Estates. Tharshiha will be one of the main day-to-day contacts with finance staff. She will manage the on-site audit staff, review audit working papers and be responsible for resolving key audit issues.
<b>Moore Stephens Assistant Manager</b>	<b>Emily Davies</b> Tel: 020 7651 1552 E-mail: <a href="mailto:emily.davies@moorestephens.com">emily.davies@moorestephens.com</a>	Emily will be responsible for the audit of the Sundry and Other Trusts. Emily will be one of the main day-to-day contacts with finance staff. She will manage the on-site audit staff, review audit working papers and be responsible for resolving key audit issues.
<b>Moore Stephens Assistant Manager</b>	<b>Matthew Vosper</b> Tel: 020 7651 1593 E-mail: <a href="mailto:matthew.vosper@moorestephens.com">matthew.vosper@moorestephens.com</a>	Matthew will be responsible for the audits of City's Cash and City's Cash Trusts. Matthew will be one of the main day-to-day contacts with finance staff. He will manage the on-site audit staff, review audit working papers and be responsible for resolving key audit issues.

## 7.4 Confirmation of independence

The Financial Reporting Council's Ethical Standard, requires that as external auditors, we ensure that the Audit and Risk Management Committee is appropriately informed on a timely basis of all significant facts and matters that bear upon the auditors' objectivity and independence.

We confirm that we will comply with the Ethical Standard throughout our audit and that, in our professional judgement, there are no relationships between our firm and the City of London Corporation which need to be brought to your attention because they may impact on the independence and objectivity of the audit team. We do not provide any non-audit services to the City of London.

## Appendix 1 – Entities Covered by the Plan

The list of entities which are covered by this document are included in the table below. We have included in the table income, surplus/deficit and net assets from the 2016-17 accounts along with our initial assessment of materiality. Materiality has been assessed based on either the net assets of the entity or incoming resources and will be revisited as part of our final audit of the financial statements.

Activities (Taken from 2016-17 Accounts)	Income £'000	Surplus/ (Deficit) £'000	Net Assets £'000	Indicative Materiality £'000
<b>Bridge House Estates</b>	34,100	159,500	1,341,200	14,000 1,000 (I&E)*
<b>City's Cash</b>	153,000	225,600	2,520,000	29,200 3,100 (I&E)*
<b>City's Cash Trusts</b>				
<b>Ashtead Common</b> Preservation of the common at Ashtead	519	-	-	10
<b>Burnham Beeches and Stoke Common</b> Preservation of the Open Space know as Burnham Beeches	887	(18)	767	18
<b>Epping Forest</b> Preservation of Epping Forest in perpetuity	6,200	(207)	7,713	128
<b>Hampstead Heath</b> Preservation of Hampstead Heath for the recreation and enjoyment of the public	14,958	10,237	52,376	160
<b>Highgate Wood and Queens Park Kilburn</b> Preservation of the Open Space known as Highgate Wood and Queens Park Kilburn	1,401	1	382	28
<b>West Ham Park</b> Preservation of the open space known as West Ham Park	1,473	15	51	29
<b>West Wickham Common and Spring Park Coulsdon &amp; Other Commons</b> Preservation of West Wickham Common and Spring Park Wood, and Coulsdon and Other Commons	1,288	57	164	25
<b>Sundry Trusts</b>				
<b>Ada Lewis Winter Distress Fund</b> Providing relief and support during winter months	29	27	279	6
<b>Charities Administered ICW the City of London</b>				
<b>Freemen's School</b> Promotion of education through prizes	31	23	192	4
<b>City Educational Trust Fund</b> Advancement of education through grants	526	342	3,774	78
<b>City of London Almshouses</b> Almshouses for poor or aged people	490	181	1,640	65

Activities (Taken from 2016-17 Accounts)	Income £'000	Surplus/ (Deficit) £'000	Net Assets £'000	Indicative Materiality £'000
<b>Sundry Trusts (continued)</b>				
<b>City of London Corporation Combined Education Charity</b> Advancing education by the provision of grants and financial assistance	157	86	1,124	23
<b>City of London Corporation Relief of Poverty Charity</b> Relief of poverty for widows, widowers or children of a Freeman of the City of London	16	16	157	3
<b>City of London Freeman's School Bursary Fund</b> Promotion of education through bursaries	136	124	915	18
<b>City of London School Bursary Fund</b> Promotion of education through bursaries, scholarships and prizes	458	416	3,871	78
<b>City of London School Education Trust</b> Advancing education	304	-	6	6
<b>City of London School Girls Bursary Fund</b> Promotion of education through bursaries, scholarships and prizes	1,210	757	4,220	74
<b>Corporation of London Charities Pool</b> Investments pool for Sundry Trusts	3,501	1,164	22,867	458
<b>Emmanuel Hospital</b> Payment of pensions and financial assistance to poor persons	333	282	2,549	51
<b>Guildhall Library Centenary Fund</b> Provision of education and training in library, archives, museum, and gallery services	1	3	26	1
<b>Hampstead Heath Trust</b> To meet a proportion of the maintenance cost of Hampstead Heath	4,797	3,470	32,378	660
<b>Keats House</b> Maintenance of Keats' House	462	37	226	7
<b>King George's Field</b> Open space for sports, games and recreation	44	-	-	1
<b>Samuel Wilson's Loan Trust</b> Granting of low interest loans to young people who have or are about to set up in business	294	289	2,415	48
<b>Signore Pasquale Favale Bequest</b> Granting of assistance to eligible persons in the form of marriage portions	2	2	15	1

Activities (Taken from 2016-17 Accounts)	Income £'000	Surplus/ (Deficit) £'000	Net Assets £'000	Indicative Materiality £'000
<b>Sundry Trusts (continued)</b>				
<b>Sir Thomas Gresham Charity</b> Provision of Almshouses and public lectures at Gresham College	95	(1)	149	2
<b>Sir William Coxen Trust Fund</b> Granting of assistance to eligible charitable trusts in the form of donations	369	125	2,627	57
<b>Vickers Dunfee Memorial Benevolent Fund</b> Financial assistance to distressed past and present members of the CoL Special Constabulary and their dependents	24	24	225	5

\* City's Cash and Bridge House Estates hold significant portfolios of property and managed investments, which form the largest part of the balance sheets. We consider that the balance sheet is of primary interest to the reader of the financial statements (Members of the City of London Corporation) and therefore consider that materiality based on 2% of gross assets to be a suitable figure. While the balance sheets are of primary interest to the reader of the financial statements, we consider that a misstatement at the level of balance sheet materiality, or even at half the materiality levels above, would be highly material to the income and expenditure account and therefore of greater interest to the reader of the accounts. Therefore, we will apply materiality levels to income and expenditure transactions of a lower value to reduce the risk of material misstatements. This level has been assessed at 2% of gross expenditure for BHE and 2% of income for City's Cash.

# CITY OF LONDON - CITY FUND

AUDIT PLAN TO THE AUDIT AND RISK MANAGEMENT COMMITTEE  
Audit for the year ending 31 March 2018

15 February 2018



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# INTRODUCTION

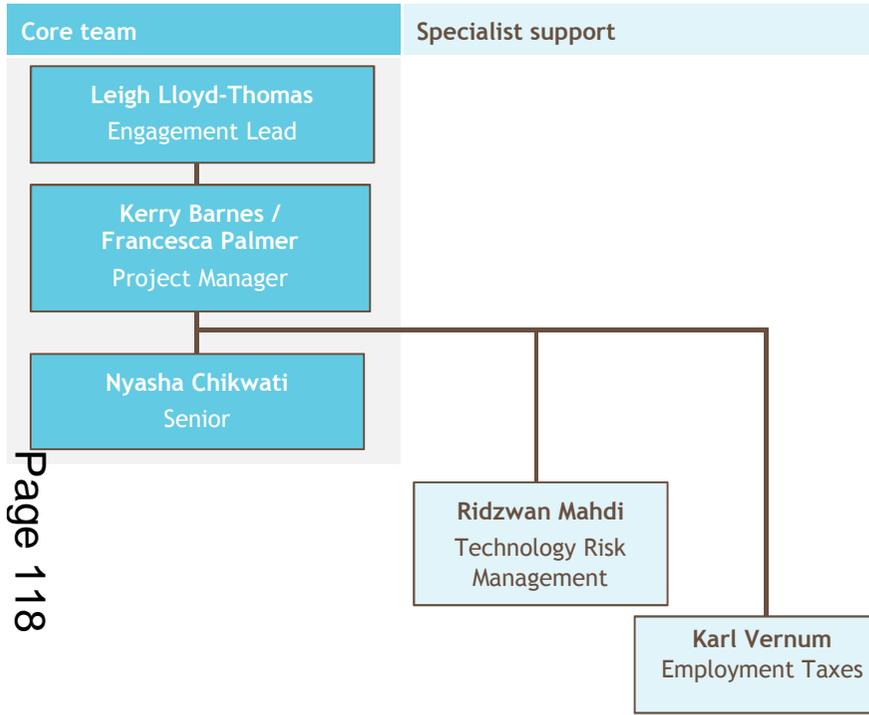
## PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements and use of resources of the City of London City Fund for the year ending 31 March 2018. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

This report has been prepared solely for the use of the Audit and Risk Management Committee. In preparing this report, we do not accept or assume responsibility for any other purpose, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

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# YOUR BDO TEAM



Name	Contact details	Key responsibilities
<b>Leigh Lloyd-Thomas</b> Engagement Lead	Tel: 020 7893 2616 leigh.lloyd-thomas@bdo.co.uk	Oversee the audit and sign the audit report
<b>Kerry Barnes / Francesca Palmer</b> Project Manager	Tel: 020 7893 3837 / 01473 320739 kerry.l.barnes@bdo.co.uk / francesca.palmer@bdo.co.uk	Management of the audit
<b>Nyasha Chikwati</b> Senior	Tel: 020 7893 3668 nyasha.chikwati@bdo.co.uk	Day to day supervision of the audit team
<b>Ridzwan Mahdi</b> Technology Risk Assistant Manager	Tel: 020 7893 3126 ridzwan.x.mahdi@bdo.co.uk	Manage IT review for audit purposes
<b>Karl Venum</b> Employment Tax Principal	Tel: 020 7893 3549 karl.vernum@bdo.co.uk	Manage employment tax review for audit purposes

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Leigh Lloyd-Thomas is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements and use of resources.

In meeting this responsibility, he will ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that:

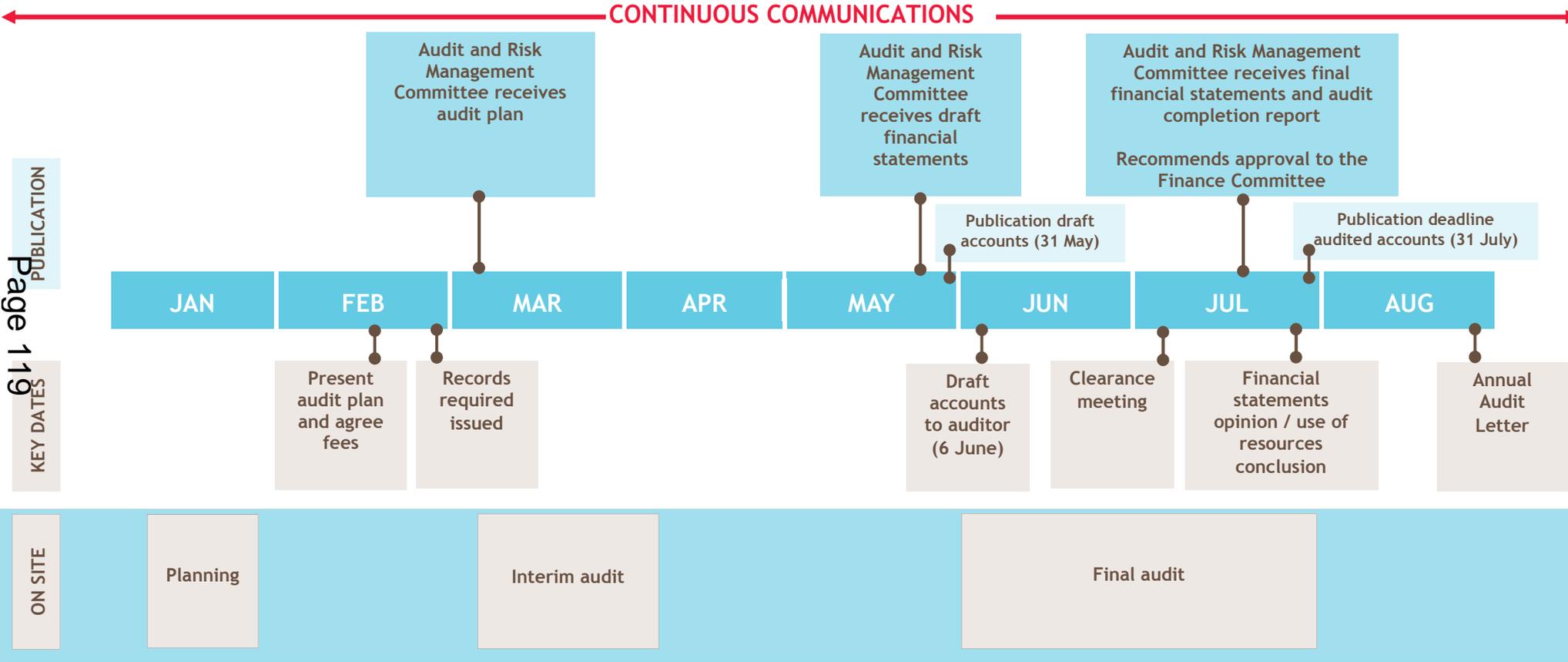
- the financial statements are free from material misstatement, whether due to fraud or error
- the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

He is responsible for the overall quality of the engagement.

# ENGAGEMENT TIMETABLE

## TIMETABLE

The timeline below identifies the key dates and anticipated meetings for the production and approval of the audited financial statements and completion of the use of resources audit.



PUBLICATION  
 Page 119  
 KEY DATES

ON SITE

# AUDIT SCOPE AND OBJECTIVES

## SCOPE AND OBJECTIVES

Our audit scope covers the audit in accordance with the National Audit Office (NAO) Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the NAO.

Our objective is to form an opinion on whether:

FINANCIAL STATEMENTS		OTHER INFORMATION	WGA CONSOLIDATION	USE OF RESOURCES
<p><b>1</b> The financial statements give a true and fair view of the financial position of the authority and its expenditure and income for the period in question.</p>	<p><b>2</b> The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.</p>	<p><b>3</b> Other information published together with the audited financial statements is consistent with the financial statements (including the governance statement).</p>	<p><b>4</b> The return required to facilitate the preparation of Whole of Government Accounts (WGA) consolidated accounts is consistent with the audited financial statements.</p>	<p><b>5</b> The authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>

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## ADDITIONAL POWERS AND DUTIES

<p><b>6</b> Where appropriate: To consider the issue of a report in the public interest.  To make a written recommendation to the authority.</p>	<p><b>7</b> To allow electors to raise questions about the accounts and consider objections.  Where appropriate, to apply to the court for a declaration that an item of account is contrary to law.  Where appropriate, to consider whether to issue an advisory notice or to make an application for judicial review.</p>
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# MATERIALITY

## MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
City Fund overall materiality <sup>(1)</sup>	£23,400,000	£460,000
Specific materiality for other financial statement areas:		
- Impact on revenue resources through the Comprehensive income and expenditure statement (CIES) and Movement in reserves statement (MiRS) <sup>(2)</sup>	£5,800,000	£116,000

Please see Appendix I for detailed definitions of materiality and triviality.

The City Fund has custody of significant public assets through its ownership of property assets and investments that are used to generate income to support the local authority services provided by the Corporation. These capital and investment balances form the largest part of the balance sheet. We consider that the balance sheet is of primary interest to the reader of the financial statements (Members of the City of London Corporation) and therefore we use the total value of property, plant and equipment, investment properties and investments as a suitable value for materiality. Materiality has been set at 1% of this balance sheet amount.

<sup>(2)</sup> While the balance sheet is of primary interest to the reader of the financial statements, we consider that a misstatement at a lower level through revenue expenditure would be material where this may impact on setting future council tax or HRA rent levels. Revenue resources available to the City Fund at 31 March 2017 were £99 million, comprising the General Fund balance, Housing Revenue Account balance and earmarked reserves. Therefore, we will apply a lower level of materiality at 1.5% of gross expenditure to income and expenditure transactions in the Comprehensive income and expenditure statement (CIES) and Movement in reserves statement (MiRS) that impact on revenue resources to reduce the risk of material misstatements.

Materiality is based on balances and transactions disclosed in the prior year financial statements. Materiality will be revisited when the draft financial statements are received for audit.

The clearly trivial amount is based on 2% of the materiality level.

# OVERALL AUDIT STRATEGY

## We will perform a risk based audit on the Corporation's financial statements and use of resources

This enables us to focus our work on key audit areas. Our starting point is to document our understanding of the Corporation City Fund (local authority) activities and the specific risks it faces. We discussed the changes to the business and management's own view of potential audit risk to gain an understanding of the activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

For the financial statements audit, we also confirm our understanding of the accounting systems in order to ensure their adequacy as a basis for the preparation of the financial statements and that proper accounting records have been maintained.

For the use of resources audit, we consider the significance of business and operational risks insofar as they relate to 'proper arrangements', including risks at both sector and authority-specific level, and draw on relevant cost and performance information as appropriate.

We then carry out our audit procedures in responses to audit risks.

## Risks and planned audit responses

For the financial statements audit, under International Standard on Auditing (ISA) 315 "Identifying and assessing the risks of material misstatement through understanding the entity and its environment", we are required to consider significant risks that require special audit attention.

In assessing a risk as significant, we exclude the effects of identified controls related to the risk. The ISA requires us at least to consider:

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions

- Whether the risk involves significant transactions with related parties
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

For the use of resources audit, the NAO has provided information on potential significant risks such as:

- Organisational change and transformation
- Significant funding gaps in financial planning
- Legislative or policy changes
- Repeated financial difficulties or persistently poor performance
- Information from other inspectorates and review agencies suggesting governance issues or poor service performance.

We consider the relevance of these risks to the City Fund in forming our risk assessment and audit strategy.

## Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will review relevant reports as part of our audit planning and consider whether to place any reliance on internal audit work as evidence of the soundness of the control environment.

# OVERALL AUDIT STRATEGY

## Continued

### Management assessment of fraud

We have discussed with management its assessment of the risk that the financial statements may be materially misstated due to fraud and the processes for identifying and responding to the risks of fraud.

We are informed by management that there have not been any cases of significant or material fraud to their knowledge.

Frauds identified in recent years include:

- Ineligible applications for right to buy discounts on HRA properties
- Housing benefit and local council tax support claimants
- Failure to receipt and bank all cash income received in some service areas
- Providing chargeable services to customers but not collecting income due
- Misuse of public assets but without financial impact, such as tenancy sub-letting and blue badges.

Management believe that the risk of material misstatement due to fraud in the financial statements is low and that controls in operation would prevent or detect material fraud.

The Audit and Risk Management Committee has oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks. This is discharged through the reviews undertaken by internal audit.

To corroborate the responses to our inquiries of management, please let us know if there are any other actual, suspected or alleged instances of fraud of which you are aware.

# KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk

## AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Management override</p> <p>Page 124</p>	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under auditing standards there is a presumed significant risk of management override of the system of internal controls.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>• Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud</li> <li>• Obtain an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.</li> </ul>	<p>Not applicable.</p>
<p>Revenue recognition</p>	<p>Under auditing Standards there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the existence of income.</p> <p>In particular, we consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance and / or conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).</p> <p>We also consider there to be a significant risk in relation to the existence of fees and charges and investment rental income recorded in the CIES with a particular focus on year-end cut off.</p>	<p>We will test a sample of grants subject to performance and / or conditions to confirm that conditions of the grant have been met before the income is recognised in the CIES.</p> <p>We will test a sample of fees and charges to ensure income has been recorded in the correct period and that all income that has been recorded should have been recorded.</p>	<p>Government grant funding will be agreed to information published by the sponsoring department including any grant conditions.</p>

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Land, buildings, dwellings and investment property valuations</p> <p>Page 125</p>	<p>Local authorities are required to ensure that the carrying value of land, buildings, dwellings and investment properties are not materially different to existing use for operational assets or fair value for surplus assets and investment properties at the balance sheet date.</p> <p>Management use external valuation data to assess whether there has been a material change in the value of classes of assets. Investment properties are revalued annually according to market conditions at year-end. Higher value operational properties (other land and buildings and dwellings) are revalued annually to provide assurance that carrying values are materially stated, with the remainder of non-material value assets revalued periodically (minimum of every five years). Operational asset valuations are undertaken by both external and internal valuers.</p> <p>We consider there to be a significant risk over the valuation of land buildings, dwellings and investment properties where valuations are based on market assumptions or where updated valuations have not be provided for a class of assets at the year-end.</p> <p>This is a significant risk due to the higher estimation uncertainty arising from the range of assumptions available to value land and property assets.</p>	<p>We will review the instructions and the detailed information provided by the City Fund to the valuer and perform procedures to confirm the accuracy and completeness of the information.</p> <p>We will review the valuer’s skills and expertise in order to determine if we can rely on the management expert.</p> <p>We will confirm that the basis of valuation for assets valued in year is appropriate based on their usage. We will confirm that an instant build modern equivalent asset basis has been used for assets valued at depreciated replacement cost.</p> <p>We will review valuation movements against indices of price movements for similar classes of assets and follow up valuation movements that appear unusual against indices.</p>	<p>We will review independent data that shows indices and price movements for classes of assets against the percentage movement applied by the City Fund.</p>

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Pension liability assumptions</p>	<p>The net pension liability comprises the City Fund’s share of the market value of assets held in the City of London Pension Fund and the estimated future liability to pay pensions. An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience.</p> <p>The estimate is based on a roll-forward of data from the 2016 triennial valuation, updated where necessary, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk that the membership data and cash flows provided to the actuary as at 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability.</p> <p>This is a significant risk due to the higher estimation uncertainty arising from the range of assumptions available to value the pension liability.</p>	<p>As the auditors of the pension fund, we will review the controls for providing accurate membership data to the actuary.</p> <p>We will compare the assumptions used by the scheme actuary with assumptions used by other local government actuaries (provided by PwC consulting actuaries) to assess the reasonableness of the assumptions and impact on the calculation of the present value of estimated future pension payments.</p> <p>We will compare the disclosure in the financial statements to the information provided by the actuary.</p>	<p>We will use the PwC consulting actuary report provided to auditors for the review of the methodology of the actuary and reasonableness of the assumptions.</p>

Pension liability assumptions  
Page 126

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Lease premiums	<p>The City Fund is party to a significant number of lease arrangements as lessor. The premiums and rents are apportioned between the land element, which will ordinarily be an operating lease recognised as revenue, and the building element which is likely to be a finance lease and recorded as a capital disposal. The element of the premium relating to the land is treated as deferred income and released to revenue over the term of the lease.</p> <p>The apportionment between the land and building elements is a complex accounting estimate and there is a risk that the value of the spilt applied may not be appropriate.</p>	<p>We will review the process applied for apportioning lease premiums between land (deferred revenue) and buildings (capital disposal) including reviewing the work of external valuer to confirm if this is appropriate.</p> <p>We will also select a sample of leases and confirm that the allocations have been accurately calculated.</p>	Not applicable.
Consideration of related party transactions	<p>We consider if the disclosures in the financial statements concerning related party transactions are complete and accurate, and in line with the requirements of the accounting standards.</p> <p>There is a risk that related party transactions disclosures are omitted from the financial statements, or do not accurately reflect the underlying related party transaction.</p>	<p>We will review relevant information concerning any such identified transactions.</p> <p>We will discuss with management and review member's and Senior Management declarations to ensure there are no potential related party transactions which have not been disclosed. This is something we will require you to include in your management representation letter to us.</p>	Companies House searches for undisclosed interests.

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Non-domestic rates appeals provision</p> <p>Page 128</p>	<p>Billing authorities are required to estimate the value of potential refund of business rates arising from rate appeals, including backdated appeals. The Valuation Office Agency (VOA) provides information regarding the appeals currently being assessed and settled.</p> <p>Management use this information to calculate a success rate for specific business types for settled appeals, and applies an appropriate rate to each type of business appeal still outstanding at year end.</p> <p>We consider there to be a risk in relation to the estimation of the provision due to potential incomplete data and assumptions used in calculating the likely success rate of appeals.</p>	<p>We will review the accuracy of the appeals data to confirm that it is complete based on the VOA list, and that settled appeals are removed.</p> <p>We will review the assumptions used in the preparation of the estimate including the historic success rates to confirm if the rates applied are appropriate.</p>	<p>We will compare the listing of current appeals to listings from the VOA.</p>
<p>Allowances for non-collection of receivables</p>	<p>The City Fund includes a material amount in respect of provisions for non-collection of NDR arrears, private residential rent arrears (current tenants) and arrears in relation to the Barbican Centre and City Police.</p> <p>There is a risk that the provisions may not accurately reflect collection rates based on age or debt recovery rates.</p>	<p>We will review the provision model for significant income streams and debtor balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears.</p>	<p>Not applicable.</p>

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - USE OF RESOURCES

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Sustainable finances (City Police)</p> <p>Page 129</p>	<p>City Police were forecasting an overspend of £1.6 million as at 30 September 2017 however as at 31 December 2017 City Police are on course to balance their budget. This favourable movement is due to the continued and widespread vacancies across the Force and eleven deleted Police Staff posts in December 2017 which has created significant underspending within pay budgets.</p> <p>The police budget for 2018/19 has been brought into balance, through a combination of efficiency savings, additional government grant in the provisional settlement and draw down on reserves. This intends to provide time to implement Force transformation plans, following the Deloitte Review, which will help to address the forecast budget deficit of £4 to 5 million per annum in subsequent years, when it is anticipated reserves will be exhausted, and pressures arising from increased demand and the changing nature of police services.</p> <p>Identifying the required level of savings in the medium term will be a challenge and is likely to require difficult decisions around service provision and possible increases in business rate premium.</p>	<p>We will review the Medium Term Financial Strategy and assess the reasonableness of the assumptions used for cost pressures and the amount of grant reductions applied.</p> <p>We will monitor the delivery of the budgeted savings in 2017/18 and review the strategies, identified by the external value for money review, to close the budget gap in the medium term.</p>	<p>Not applicable.</p>

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - USE OF RESOURCES

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Sustainable finances (City Fund)</p> <p>Page 130</p>	<p>The City Fund is currently forecasting a better than budget position of £1.5 million in 2017/18 which is mainly due to additional income from positive box office performances at the Barbican.</p> <p>Extra business rates income, combined with an increase in anticipated rents from the fund's investment properties and additional interest on cash balances, has allowed cost pressures to be accommodated and the inclusion of additional funding to meet Member priorities and initiatives, whilst still leaving the fund in surplus for 2017/18 and 2018/19. The fund moves into deficit from 2019/20 onwards due to the inclusion of costs for the Museum of London and the Combined Courts relocation projects. This assumes that the preference will be to utilise City Fund reserves prior to borrowing to fund these projects, though this is subject to the overall funding strategies for the projects, which are yet to be agreed.</p> <p>The MTFS is based on key income and expenditure assumptions as well as significant savings/ income generation proposals within service budgets. If key assumptions and savings plans have not been based on reliable data or have been overly optimistic the financial position could deteriorate over the medium term.</p>	<p>We will undertake a high level review of the assumptions in the City Fund's Medium Term Financial Strategy, including benchmarking key variables such as inflationary pressures and grant income, and savings schemes.</p>	<p>Not applicable.</p>

# INDEPENDENCE

## INDEPENDENCE

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit and Risk Management Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ending 31 March 2018.

Our appointment by the Audit Commission (and confirmed by Public Sector Audit Appointments Limited) covers both the City of London Corporation City Fund and pension fund. We do not consider this to be a threat to our independence and objectivity.

Non-audit services fees (relating to audit related services) for the assurance reviews of the teachers’ pensions return and pooling of housing capital receipts are shown on the following page. We do not plan to provide any other non-audit services.

We confirm that the firm complies with the Financial Reporting Council’s Ethical Standards for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement lead and audit staff is not impaired.

## ENGAGEMENT TEAM ROTATION

### SENIOR TEAM MEMBERS

### NUMBER OF YEARS INVOLVED

Leigh Lloyd-Thomas - Engagement lead

3

Kerry Barnes - Project manager

3

Francesca Palmer - Project manager

1

# FEES

## FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2018 are:

	2017/18 Proposed fee £	2016/17 Actual fee £
Code audit fee	86,383	86,383
Certification fee (Housing benefits subsidy)	11,396	11,205
<b>Total code audit and certification fees</b>	<b>97,779</b>	<b>97,779</b>
Fees for audit related (see below)	11,340	11,340
Fees for non-audit services	0	0
<b>TOTAL FEES</b>	<b>109,119</b>	<b>108,928</b>

## NON-AUDIT SERVICES FEES ANALYSIS

### Audit related services:

Teachers' Pension (local education authority)	4,500
Teachers' Pension (Centre for Young Musicians (City's Cash))	4,500
Pooling of Housing Capital Receipts	2,340
<b>Total</b>	<b>11,340</b>

The above fees do not differ from those included in the fee letter that we issued on 27 April 2017.

### Billing arrangements

Invoices for the Code audit fee will be raised as set out below:

- Instalment 1 £43,191.50 in July 2017
- Instalment 2 £21,595.75 in March 2018
- Instalment 3 £21,595.75 in July 2018

Certification fees will be billed on completion of the work.

Our firm's standard terms of business state that full payment is due within 14 days of receipt of invoice.

### Amendments to the proposed fees

If we need to propose any amendments to the fees during the course of the audit, where our assessment of risk and complexity are significantly different from those reflected in the proposed fee or where we are required to carry out work in exercising our additional powers and duties, we will first discuss this with the Deputy Chamberlain. Where this requires a variation to the scale fee we will seek approval from PSAA. If necessary, we will also prepare a report outlining the reasons why the fee needs to change for discussion with the Audit and Risk Management Committee. At this stage, nothing has come to our attention that would require us to seek approval to amend the scale fee.

### Our fee is based on the following assumptions

The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.

Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.

We will receive only one draft of the Statement of Accounts prior to receiving the final versions for signing.

Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

# APPENDIX I: MATERIALITY

## CONCEPT AND DEFINITION

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.
- Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):
  - Narrative disclosure e.g. accounting policies, going concern
  - Statutory performance targets
  - Instances when greater precision is required (e.g. senior management remuneration disclosures).

International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## CALCULATION AND DETERMINATION

- We have determined materiality based on professional judgement in the context of our knowledge of the authority, including consideration of factors such as sector developments, financial stability and reporting requirements for the financial statements.
- We determine materiality in order to:
  - Assist in establishing the scope of our audit engagement and audit tests
  - Calculate sample sizes
  - Assist in evaluating the effect of known and likely misstatements on the financial statements.

# APPENDIX I: MATERIALITY

## Continued

### REASSESSMENT OF MATERIALITY

- We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.
- Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope. If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.
- You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

### UNADJUSTED ERRORS

- Page 134
- In accordance with auditing standards, we will communicate to the Audit and Risk Management Committee all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.
  - Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.
  - We will obtain written representations from the Audit and Risk Management Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
  - There are a number of areas where we would strongly recommend/request any misstatements identified during the audit process being adjusted. These include:
    - Clear cut errors whose correction would cause non-compliance with statutory performance targets, management remuneration, other contractual obligations or governmental regulations that we consider are significant.
    - Other misstatements that we believe are material or clearly wrong.
-

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation. In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

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# CITY OF LONDON PENSION FUND

AUDIT PLAN TO THE AUDIT AND RISK MANAGEMENT COMMITTEE  
Audit for the year ending 31 March 2018

12 February 2018



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# INTRODUCTION

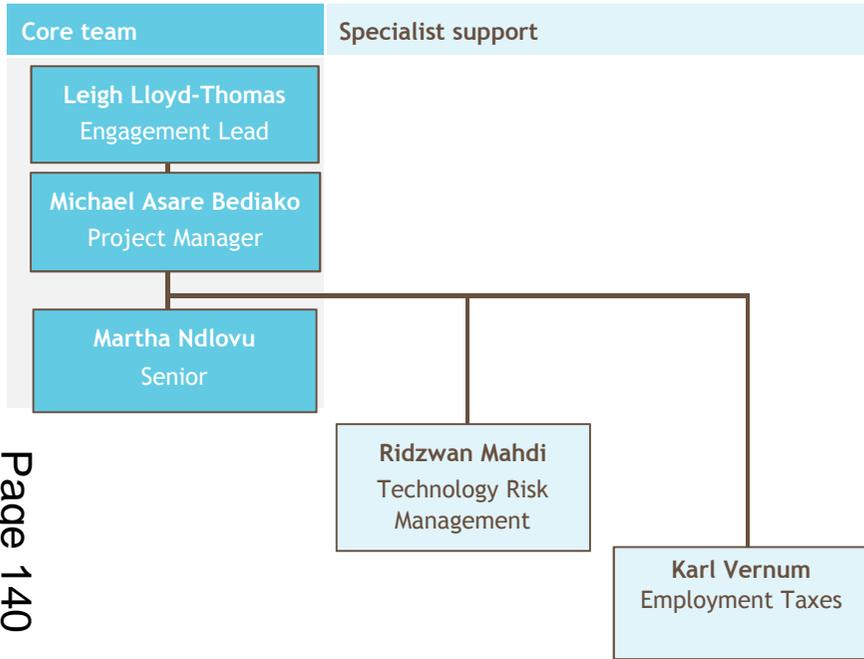
## PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements of the pension fund for the year ending 31 March 2018. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

This report has been prepared solely for the use of the Audit and Risk Management Committee. In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

---

# YOUR BDO TEAM



Name	Contact details	Key responsibilities
<b>Leigh Lloyd-Thomas</b> Engagement Lead	Tel: 020 7893 2616 leigh.lloyd-thomas@bdo.co.uk	Oversee the audit and sign the audit report
<b>Michael Asare Bediako</b> Project Manager	Tel: 020 7893 3643 Michael.asarebediako@bdo.co.uk	Management of the audit
<b>Martha Ndlovu</b> Senior	Tel: 0147 332 0851 martha.ndlovu@bdo.co.uk	Day to day supervision of the on-site audit
<b>Ridzwan Mahdi</b> Technology Risk Assistant Manager	Tel: 020 7893 3126 ridzwan.x.mahdi@bdo.co.uk	Manage IT review for audit purposes
<b>Karl Venum</b> Employment Tax Manager	Tel: 020 7893 3549 karl.vernum@bdo.co.uk	Manage employment tax review for audit purposes

Leigh Lloyd-Thomas is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements.

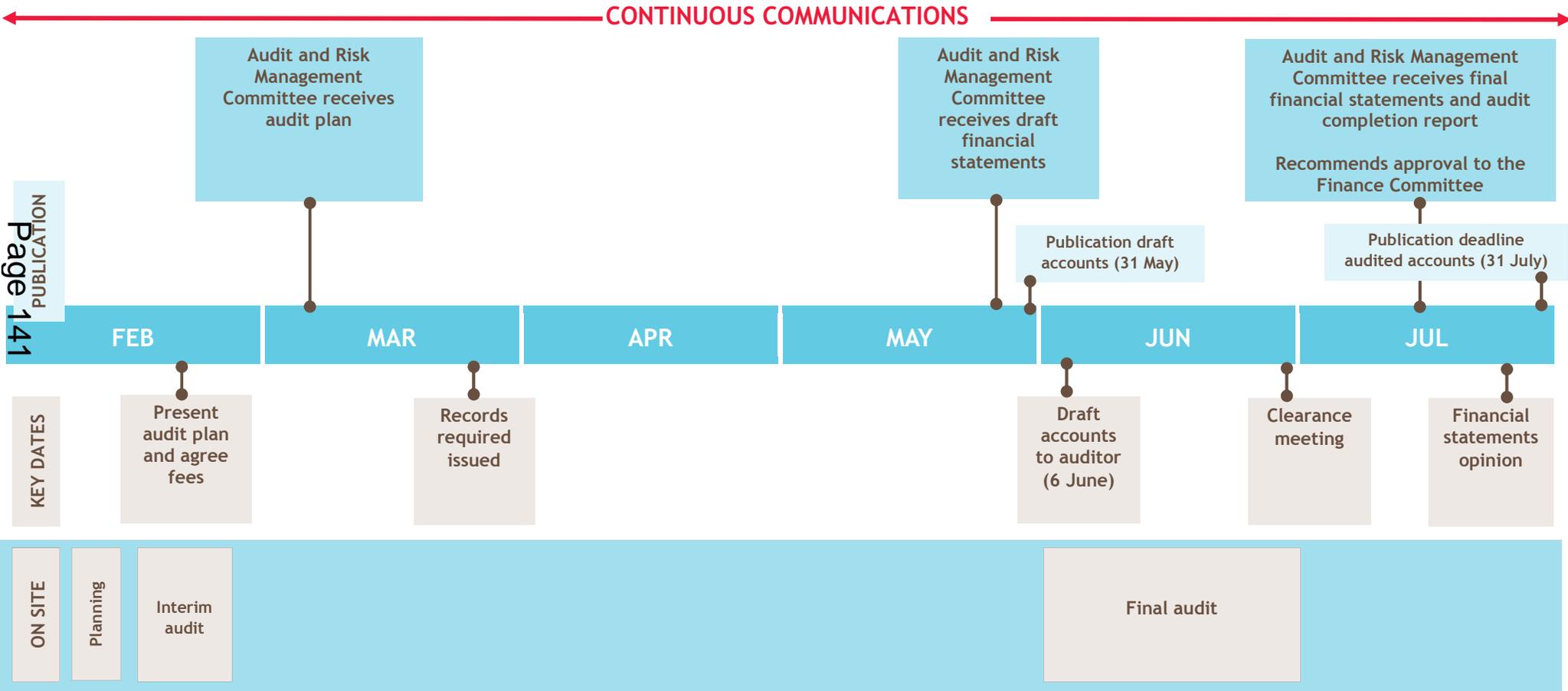
In meeting this responsibility, he will ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that the financial statements are free from material misstatement, whether due to fraud or error.

He is responsible for the overall quality of the engagement.

# ENGAGEMENT TIMETABLE

## TIMETABLE

The timeline below identifies the key dates and anticipated meetings for the production and approval of the audited financial statements.



# AUDIT SCOPE AND OBJECTIVES

## SCOPE AND OBJECTIVES

Our audit scope covers the audit in accordance with the NAO Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the NAO.

To form an opinion on whether:

FINANCIAL STATEMENTS		OTHER INFORMATION	ADDITIONAL REQUIREMENTS
<p><b>1</b> The financial statements give a true and fair view of the financial transactions of the pension fund for the period, and the amount and disposition at the period end of the assets and liabilities, other than liabilities to pay pensions and benefits after the period end.</p>	<p><b>2</b> The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.</p>	<p><b>3</b> Other information published together with the audited financial statements is consistent with the financial statements.</p>	<p><b>4</b> Review the pension fund annual report and report on the consistency of the pension fund financial statements within the annual report with the pension fund financial statements in the statement of accounts.</p>

# MATERIALITY

## MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Pension fund overall materiality	£9,667,000	£193,000
Specific materiality for other financial statement areas:		
- Fund account	£1,620,000	£32,000

Please see Appendix I for detailed definitions of materiality and triviality.

Planning materiality for the pension fund financial statements will initially be based on 1% of net assets. Specific materiality (at a lower level) may be considered appropriate for certain financial statement areas and we set materiality for the fund account at 5% of contributions receivable.

At this stage, these figures are based on the prior year net asset amounts and contributions receivable. This will be revisited when the draft financial statements are received for audit.

The clearly trivial amount is based on 2% of the materiality level.

# OVERALL AUDIT STRATEGY

## We will perform a risk based audit on the pension fund financial statements

This enables us to focus our work on key audit areas.

Our starting point is to document our understanding of the pension fund and the specific risks it faces. We discussed the changes to the fund, such as scheme regulations, and management's own view of potential audit risks during our planning visit in order to gain an understanding of the activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

We also confirm our understanding of the accounting systems in order to ensure their adequacy as a basis for the preparation of the financial statements and that proper accounting records have been maintained.

We then carry out our audit procedures in response to audit risks.

## Risks and planned audit responses

Under International Standard on Auditing 315 "Identifying and assessing the risks of material misstatement through understanding the entity and its environment", we are required to consider significant risks that require special audit attention.

In assessing a risk as significant, we exclude the effects of identified controls related to the risk. The ISA requires us at least to consider:

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

## Internal audit

We understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will consider these reports as part of our audit and whether to place any reliance on internal audit work as evidence of the soundness of the control environment.

## Management assessment of fraud

We have discussed with management its assessment of the risk that the financial statements may be materially misstated due to fraud and the processes for identifying and responding to the risks of fraud.

Management believe that the risk of material misstatement due to fraud in the pension fund financial statements is low. Potential fraud could include failure to receive all contributions due from employers or paying for fictitious pensioners or continuing to pay pensions to deceased pensioners. Management consider that controls in operation would prevent or detect material fraud in these areas. We are informed by management that there have not been any cases of significant or material fraud to their knowledge.

Audit and Risk Management Committee has oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks. This is discharged through the reviews undertaken by internal audit.

To corroborate the responses to our inquiries of management, please let us know if there are any other actual, suspected or alleged instances of fraud of which you are aware.

# KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk

## AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Management override	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of the fund's policies, aims and objectives and to manage the risks facing the fund; this includes the risk of fraud.</p> <p>Under auditing standards, there is a presumed significant risk of management override of the system of internal controls.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>• Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud</li> <li>• Test a sample of significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.</li> </ul>	Not applicable.
Pension liability assumptions	<p>An actuarial estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on a roll-forward of data from the 2016 triennial valuation, updated where necessary, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk that the membership data and cash flows provided to the actuary as at 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability.</p> <p>This is a significant risk due to the higher estimation uncertainty arising from the range of assumptions available to value the pension liability.</p>	<p>We will compare the assumptions used by the scheme actuary with assumptions used by other local government actuaries (provided by PwC consulting actuaries) to assess the reasonableness of the assumptions and impact on the calculation of the present value of estimated future pension payments.</p> <p>We will also check whether the actuary had applied assumptions in accordance with the range provided to PwC.</p> <p>We will compare the disclosure in the financial statements to the information provided by the actuary</p> <p>We will review the data provided to the actuary to ensure that is accurate and complete</p>	We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Fair value of investments (infrastructure and private equity)	The investment portfolio includes unquoted infrastructure and private equity holdings valued by the General Partner or fund manager using valuations obtained from the underlying partnerships and investments.	We will obtain direct confirmation of investment valuations from the General Partner or fund manager and request copies, where applicable, of the audited financial statements of the underlying partnerships (and member allocations).	Direct confirmation of the fund valuation and audited financial statements, where applicable, for the underlying partnerships.
	Valuations are provided at dates that are not coterminous with the pension fund's year end and need to be updated to reflect cash transactions (additional contributions or distributions received) up to 31 March.	We will confirm that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds.	Assurance report on the operating effectiveness of internal controls within each of the fund manager organisation as well as the custodian.
Fair value of investments (pooled funds)	There is a risk that investments valuations may not be appropriately adjusted to include additional contributions or distributions at the year end.	We will obtain independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds.	
	The fair value of other funds (principally unit trusts and pooled investments held through unitised insurance policies) is provided by individual fund managers and reported on a monthly basis.	We will obtain direct confirmation of investment valuations from the fund managers and agree independent valuations, where available, provided by the custodian.	Direct confirmation of investment valuations from fund managers and, where appropriate, from the custodian.
	There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.	We will obtain the controls reports of the custodian and each fund manager (either directly or through the Corporation) and existence of underlying investments in the funds.	Controls reports of the custodian and each fund manager.

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Contributions receivable (normal and additional contributions for pension strain)	Employers are required to deducted amounts from employee pay based on tiered pay rates and to make employer contributions in accordance with rates agreed with the actuary. Additional contributions are also required against pension strain for early retirements.	We will perform an examination, on a test basis, of evidence relevant to the amounts of normal contributions receivable to the fund including checking to employer payroll records, where relevant.	We will check a sample of contributions receivable from the Corporation and Museum of London to the payroll records to ensure that the correct amounts have been paid by the employee and employer.
	There is a risk that employers may not be calculating contributions correctly or paying over the full amount due to the pension fund.	<p>We will review contributions receivable and ensure that income is recognised in the correct accounting period where the employer is making payments in the following month.</p> <p>We will perform tests over pension strain contributions due from employers.</p> <p>We will carry out audit procedures to review contributions income in accordance with the Actuary's Rates and Adjustments Certificate, including specified increased rates to cover the minimum contributions to be paid as set out in the Certificate.</p>	
Membership disclosure	<p>Membership information including the number of current contributors, deferred beneficiaries and pensioners by employer is required to be disclosed.</p> <p>There is a risk that the membership database may not be accurate and up to date to support this disclosure.</p>	We will undertake sample testing of existing and movements of members to transactions recorded in the fund account.	Not applicable.

Contributions receivable (normal and additional contributions for pension strain)

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# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Investment management expenses</p> <p>Page 148</p>	<p>Local Government Pension Fund Accounts are required to disclose investment management expenses.</p> <p>Management expenses included in the pension fund accounts represents the fee for the service provided by and any performance related fees in relation to the fund manager. However, fund managers do not ordinarily provide information on 'hidden' fees included in investing contributions. These fees are deducted when the investment is made by the fund manager and hence is included in the change in market value of investments.</p> <p>CIPFA has issued guidance on obtaining and separately presenting these additional charges in the fund accounts. This disclosure is a mandatory requirement for the 2017/18 financial statements.</p> <p>Management instructed fund managers to provide this information in the previous year. While most were able to provide this information, management will work with the remaining fund managers to provide this information in the current year.</p> <p>We consider there to be a risk in the presentation of investment management expenses in the fund accounts where these 'hidden' fees are not identified and separately reported.</p>	<p>We will review the arrangements put in place by management to identify all relevant investment management fees, and responses provided by fund managers, to ensure that the true costs are disclosed appropriately in the fund accounts.</p>	<p>Not applicable.</p>

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Consideration of related party transactions	We consider if the disclosures in the financial statements concerning related party transactions are complete, accurate and in line with the requirements of the accounting standards.	<p>We will review relevant information concerning any such identified transactions.</p> <p>We will discuss with management and review members' and Senior Management declarations to ensure that there are no potential related party transactions which have not been disclosed. This is something we will require you to include in your management representation letter to us.</p>	Companies House searches for undisclosed interests.
Benefits payable	<p>Benefits payable may not be correct based on accrued benefits of members or may not be in calculated in accordance with the scheme regulations.</p> <p>Payment to wrong or non-existent members will result in loss of assets and risk of reputational damage.</p>	<p>For members leaving the scheme and deferring their pension and members becoming entitled to receive pension during the year, we will check a sample of calculations of pension entitlement. We will check the correct application of annual pension uplift for members in receipt of benefits.</p> <p>We will check a sample of pensioners in receipt of pensions to underlying records to confirm the existence of the member and also review the results of the checks undertaken by ATMOS on the existence of pensioners.</p> <p>We will review the results of the latest National Fraud Initiative data matching exercise of members in receipt of benefits with the records of deceased persons and what actions have been taken to resolve potential matches.</p> <p>Payments are cross checked to movements in the membership statistics.</p>	Not applicable.

# INDEPENDENCE

## INDEPENDENCE

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit and Risk Management Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ended 31 March 2018.

Our appointment by the Audit Commission (and confirmed by Public Sector Audit Appointments Limited) covers both the City of London Corporation City Fund and pension fund. We do not consider this to be a threat to our independence and objectivity.

We have not identified any potential threats to our independence as auditors. We have confirmed that we have not provided any non-audit services to the pension fund.

We confirm that the firm complies with the Financial Reporting Council’s Ethical Standards for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired. These policies include partner and manager rotation. The table below sets out the length of involvement of key members of the audit team and the planned year of rotation.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

## ENGAGEMENT TEAM ROTATION

SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED
---------------------	--------------------------

Leigh Lloyd-Thomas - Engagement lead	3
--------------------------------------	---

Michael Asare Bediako - Project manager	3
---	---

# FEES

## FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2018 are:

	2017/18	2016/17
	£	£
Code audit fee (pension fund)	21,000	21,000
Fees for audit related services	-	-
Fees for non-audit services	-	-
<b>TOTAL FEES</b>	<b>21,000</b>	<b>21,000</b>

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Fee invoices will be raised as set out below:

- instalment 1 £10,500 in July 2017.
- instalment 2 £5,250 in March 2018.
- instalment 3 £5,250 in June 2018.

### Our fee is based on the following assumptions

The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.

Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.

We will receive only one draft of the pension fund financial statements prior to receiving the final versions for signing.

Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

# APPENDIX I: MATERIALITY

## CONCEPT AND DEFINITION

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- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.
- Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):
  - Narrative disclosure e.g. accounting policies, going concern
  - Instances when greater precision is required (e.g. related party transactions disclosures).

International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## CALCULATION AND DETERMINATION

- We have determined materiality based on professional judgement in the context of our knowledge of the pension fund, including consideration of factors such as sector developments, financial stability and reporting requirements for the financial statements.
- We determine materiality in order to:
  - Assist in establishing the scope of our audit engagement and audit tests
  - Calculate sample sizes
  - Assist in evaluating the effect of known and likely misstatements on the financial statements.

# APPENDIX I: MATERIALITY

## Continued

### REASSESSMENT OF MATERIALITY

- We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.
- Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope. If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.
- You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

### UNADJUSTED ERRORS

Page 153 In accordance with auditing standards, we will communicate to the Audit and Risk Management Committee all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.

Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.

We will obtain written representations from the Audit and Risk Management Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.

- There are a number of areas where we would strongly recommend/request any misstatements identified during the audit process being adjusted. These include:
    - Clear cut errors whose correction would cause non-compliance with statutory requirements, management remuneration, other contractual obligations or governmental regulations that we consider are significant.
    - Other misstatements that we believe are material or clearly wrong.
-

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and should not be relied upon by any other person, except where expressly agreed by our prior written consent. No responsibility to any third party is accepted.

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# CITY OF LONDON CORPORATION

## GRANT CLAIMS AND RETURNS CERTIFICATION

In respect of claims and returns for the year ended 31 March 2017

17 January 2018



# INTRODUCTION

## Purpose of the report

This report summarises the main issues arising from our certification of grant claims and returns for the financial year ended 31 March 2017.

### Public Sector Audit Appointments Ltd (PSAA) regime

PSAA has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

We undertake the grant claim certification as an agent of PSAA, in accordance with the Certification Instruction (CI) issued by them after consultation with the Department for Work and Pensions (DWP).

After completion of the tests contained within the CI the grant claim can be certified with or without amendment or, where the correct figure cannot be determined, may be qualified as a result of the testing completed.

### Other certification work

A number of grant claims and returns that were previously included within the scope of the audit have since been removed, but Departments may still seek external assurance over the accuracy of the claim or return.

These assurance reviews are undertaken outside of our appointment by PSAA and are covered by tripartite agreements between the Corporation, sponsoring Department and the auditor.

The Corporation has requested that we undertake a review, based on the instructions and guidance provided by the relevant Departments, of the Pooling of housing capital receipts return and the Teachers' pensions returns for the year ended 31 March 2017.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during our certification work.

## Fees

We reported our planned fees in our Audit Plan. The indicative Housing benefits subsidy claim fee is set by PSAA.

We have not had to amend our planned fees.

AUDIT AREA	PLANNED FEES (£)	FINAL FEES (£)
<b>PSAA regime</b>		
Housing benefits subsidy claim	11,205	11,205
<b>Total PSAA regime fees</b>	<b>11,205</b>	<b>11,205</b>
<b>Other certification work</b>		
Pooling of housing capital receipts return	2,340	2,340
Teachers' pensions return - Sir John Cass	4,500	4,500
Teachers' pensions return - Centre for Young Musicians	4,500	4,500
<b>Total certification fees</b>	<b>22,545</b>	<b>22,545</b>

## KEY FINDINGS

Below are details of each grant claim and return subject to certification by us for the financial year ended 31 March 2017. Where our work identified issues which resulted in either an amendment or a qualification, further information is provided.

CLAIM OR RETURN	VALUE	QUALIFIED	AMENDED?	IMPACT OF AMENDMENTS
Housing benefit subsidy	£5,398,885	NO	NO	-
Pooling of housing capital receipts	£2,420,800	NO	NO	-
Teachers' pensions - Sir John Cass	£184,938	NO	YES	£1,821 reduced amount payable
Teachers' pensions - Centre for Young Musicians	£15,439	NO	NO	-

HOUSING BENEFIT SUBSIDY	FINDINGS AND IMPACT ON RETURN
<p>Local authorities responsible for managing housing benefit are able to claim subsidies towards the cost of these benefits from central government. The final value of subsidy to be claimed by the Council for the financial year is submitted on form MPF720A, which is subject to certification.</p> <p>Our work on this claim includes verifying that the Corporation is using the correct version of its benefits software and that this software has been updated with the correct parameters. We also agree the entries in the claim to underlying records and test a sample of cases from each benefit type to confirm that benefit has been awarded in accordance with the relevant legislation and is shown in the correct cell on form MPF720A.</p> <p>The methodology and sample sizes are prescribed by PSAA and DWP. We have no discretion over how this methodology is applied.</p> <p>The Corporation has claimed subsidy for housing benefits paid of £5,398,885.</p>	<p>We tested benefits awarded for 17 non-HRA rent rebate cases, 20 HRA rent rebate cases and 20 rent allowances (private sector) cases.</p> <p>We found only one data input error in respect of the capital amount of assets held in the claimant's bank account but this had no impact on the amount benefit awarded. We checked a further 12 cases with claimant capital assets and found no further errors.</p> <p>We provided a clean report on the return on 29 November 2017.</p>

## KEY FINDINGS

### POOLING OF HOUSING CAPITAL RECEIPTS

Local authorities are required to pay a portion of any housing capital receipt (usually 75%) they receive into a national pool administered by central government. The Corporation is required to submit quarterly returns notifying central government of the value of capital receipts received.

The return provided for audit recorded total receipts of £2,420,800 for 10 disposals. A significant amount of sales receipts were transferred into 1-4-1 new build budgets that are time limited to remain exempt from pooling.

### FINDINGS AND IMPACT ON RETURN

We checked all qualifying housing disposals and agreed the receipts, attributable debt and archetype information amounts included in the return. We also tested a sample of qualifying 1-4-1 new housing expenditure and agreed this to supporting invoices.

We provided a clean report on the return on 14 November 2017.

## KEY FINDINGS

### TEACHERS' PENSIONS

Local authorities which employ teachers are required to deduct pension contributions and send them, along with employer's contributions, to the Teachers' Pensions office (the body which administers the Teachers' Pension Scheme on behalf of the Department for Education). These contributions are summarised on form EOYC, which the Corporation is required to submit to Teachers' Pensions.

Two returns were subject to review:

- Sir John Cass (local education authority) recorded total pensions payable at £184,938 on payroll costs of £707,928.
- Centre for Young Musicians recorded total pensions payable at £15,439 on payroll costs of £56,926.

### FINDINGS AND IMPACT ON RETURN

#### Sir John Cass return

Our review found the following errors in the return that were corrected in the amended submission to the Teachers' Pensions office:

- Two refunds were processed for teachers through payroll that were omitted from the return.
- One teacher was found to have a second qualifying contract where deductions had not been made.

We reported these issues in our report on the return on 30 November 2017.

#### Centre for Young Musicians return

No errors were found from our review of the return and a clean report was provided on 30 November 2017.

The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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<b>Committee(s)</b>	<b>Dated:</b>
Audit and Risk Committee IT Sub Committee Establishment Committee Policy and Resources Committee	6 March 2018 23 March 2018 9 April 2018 12 April 2018
<b>Subject:</b> Data Protection Policy	<b>Public</b>
<b>Report of:</b> Michael Cogher, Comptroller and City Solicitor	<b>For Decision</b>
<b>Report author:</b> Michael Cogher, Comptroller and City Solicitor	

## Summary

This report presents for consideration and adoption a revised Data Protection Policy for the Corporation (excluding the Police) in place of the current policy in preparation for the implementation of the General Data Protection Regulation on 25<sup>th</sup> May this year.

## Recommendation

Members are asked to:

Approve and adopt the revised Data Protection Policy set out in Appendix 1 with effect from 25<sup>th</sup> May 2018.

## Main Report

### Background

1. The current data protection regime is based on an EU Directive from 1995 and implemented in the UK by the Data Protection Act 1998. Since then there have obviously been significant advances in IT and fundamental changes to the ways in which organizations and individuals communicate and share information.
2. As a result, the EU has introduced updated and harmonized data protection regulations known as the General Data Protection Regulation (“GDPR”) which is due to come into effect on 25 May 2018.
3. The Corporation is currently reviewing all its relevant policies and procedures to ensure it is compliant with the requirements of GDPR.

## **The Data Protection Policy**

4. The proposed revised policy is set out in Appendix 1.
5. GDPR builds on and strengthens the current data protection requirements and introduces a number of new concepts.
6. The requirement to have a data protection policy arises from the current and strengthened requirements to ensure appropriate technical and organisational measures are in place to ensure the confidentiality, integrity and security of personal data and for greater transparency.
7. The revised Data Protection Policy is designed to be a short and concise overview of the Corporation's commitment to its obligations under GDPR with references to appropriate policies and procedures. It is self-explanatory and is intended to meet accepted good practice in terms of brevity and clarity.
8. It incorporates the revised data protection principles (six down from eight) and references to the expanded rights of data subjects, greater transparency requirements and privacy by design and default.
9. The obsolete current policy which dates from 2001 is set out in Appendix 2 by way of comparison.
10. Once in effect the Policy will be made available on the Website and supported by a brief guide detailing how it is different from the obsolete policy and the implications for users, as defined in the policy. It will be reviewed annually by the Data Protection Officer who will make appropriate recommendations for change (if any) to Committee.

## **Conclusion**

11. The revised Policy is part of the Corporation's commitment to GDPR compliance and is recommended for adoption.

## **Appendices**

Appendix 1 – Proposed Data Protection Policy  
Appendix 2 – Current Data Protection Policy (2001)

## **Background Papers**

None

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# City of London Corporation (“the City of London”) Data Protection Policy

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## 1. Introduction

The City of London, PO Box 270, Guildhall, London EC2P 2EJ, is a Data Controller for the purposes of the General Data Protection Regulation (“GDPR”) and the Data Protection Act 2018 (“DPA 2018”). The Data Protection Officer at the City of London is the Comptroller and City Solicitor, Michael Cogher, and can be contacted at the same address or otherwise by email at [michael.cogher@cityoflondon.gov.uk](mailto:michael.cogher@cityoflondon.gov.uk) or [information.officer@cityoflondon.gov.uk](mailto:information.officer@cityoflondon.gov.uk).

This policy outlines how the City of London will comply with its responsibilities under the GDPR and DPA 2018.

## 2. Statement

The City of London is committed to ensuring that it protects the rights and freedoms of all individuals with respect to the personal data it holds about them, whether in their personal or family life, or in a business or professional capacity.

## 3. Scope

This Policy applies to all users who handle information and personal data held by the City of London, including personal data of our service users, from children and young people, to vulnerable adults and the elderly as well as those who provide care for them.

This Policy applies to all employees, Members, contractors, third party employees, agency workers, temporary staff and any third party organisation who has legitimate agreed access to personal data held by City of London. (Please refer to the full Employee Data Protection Policy for full guidance for employees).

## 4. Definitions

**Personal Data** - data/information that relates to a living individual who can be identified from the data or from any other information that is in the possession of, or likely to come into the possession of the data controller. It includes any expression of opinion and any indication of the intentions of the data controller (or any other person) in respect of the individual.

**Data Controller** - the person or organisation who determines the purposes for which and the manner in which any personal data are, or are to be, processed. The City of London is the data controller in respect of all personal information that relates to City of London business. Elected Members are data controllers in their own right where they process personal data in their capacity as ward representatives.

**Data Subject** - is the identified or identifiable person to whom the personal data relates.

**Processing** - is defined very broadly and encompasses collection, recording, organisation, structuring, storage, adaptation or alteration, retrieval, consultation, use, disclosure by

transmission, dissemination or otherwise making available, alignment or combination, restriction (that is, the marking of stored data with the aim of limiting its processing in the future, erasure and destruction. In effect, any activity involving personal data falls within the scope of the GDPR.

**Data Processor** - the person or organisation who processes personal data on behalf of a data controller.

## 5. Six Data Protection Principles

The City of London has an obligation to comply with the six Data Protection principles when processing personal data. These principles require that personal data:

1. Shall be processed lawfully, fairly and in a transparent manner in relation to the data subject.
2. Shall be collected only for specified, explicit and legitimate purposes. It must not be further processed in any manner incompatible with those purposes.
3. Shall be adequate, relevant and limited to what is necessary in relation to the purposes for which it is processed.
4. Shall be accurate and, where necessary, kept up to date. Every reasonable step must be taken to ensure that data which is inaccurate, having regard to the purposes for which it is processed, is erased or rectified without delay.
5. Shall not be kept in a form which permits identification of data subjects for longer than is necessary for the purposes for which the data is processed. Personal data may be stored for longer periods provided it is processed solely for archiving purposes in the public interest, scientific or historical research purposes or statistical purposes. This is subject to the implementation of appropriate data security measures designed to safeguard the rights and freedoms of data subjects.
6. Shall be processed in a manner that ensures its appropriate security. This includes protection against unauthorised or unlawful processing and against accidental loss, destruction or damage.

The City of London will ensure that it is able to demonstrate compliance with all of the above six principles by:

- Following best practice in all personal data processing;
- adhering to the relevant processing conditions for the fair and lawful processing of personal data and special categories of personal data (set out on page 4);
- telling people why we are processing their personal data and who we will share their personal data with, through our clear and effective privacy notices;
- ensuring that if relying on consent from the data subject, it is freely given, specific, informed and unambiguous;
- implementing "privacy by default" measures to ensure that, by default, we only process the personal data necessary for each specific business purpose;

- ensuring all staff and people working for the City of London complete the mandatory Data Protection e-learning course as part of their induction and any subsequent refresher training;
- ensuring the Records of Processing Activities (“ROPA”) is reviewed annually and kept up to date;
- ensuring a robust personal data breach detection, investigation and internal reporting procedure is in place;
- ensuring transfer of personal data outside of the EEA is only carried out with a valid adequacy mechanism legitimising such a transfer;
- ensuring personal data is only kept for as long as necessary in accordance with the retention schedules.

## 6. Data Processing Conditions

The City of London will ensure that it processes personal data lawfully. Processing is lawful under Article 6 of the GDPR if one of the following applies:

- a) The data subject consents to the processing;
- b) the processing is necessary for performing a contract with the data subject;
- c) the processing is necessary for complying with a legal obligation;
- d) the processing is necessary for protecting the vital interests of the data subject;
- e) the processing is necessary for performing a task carried out in the public interest; or
- f) the processing is necessary for pursuing the legitimate interests of the data controller or a third party, except where the data subject's interests or fundamental rights and freedoms override the data controller's interests.

## 7. Data Subject Rights

The GDPR provides data subjects with several rights, including, but not limited to the right to:

- Be provided with a privacy notice containing certain information about the processing activities;
- Confirm whether the data controller processes personal data about the data subject and the right to access the personal data processed and obtain certain information about the processing activities (**Subject Access**);
- Correct inaccurate personal data (**Rectification**);
- Have personal data erased under certain circumstances (**Erasure**);
- Restrict the processing of personal data under certain circumstances (**Restriction**);
- Receive a copy of the personal data the data controller holds under certain circumstances and transfer the personal data to another data controller (**Data Portability**);

- Object to processing of personal data (**Right to Object**);
- Not be subject to a decision based solely on automated processing, including profiling (**Automated Decisions**).

Data subjects can exercise these rights by contacting the Information Compliance Team at [information.officer@cityoflondon.gov.uk](mailto:information.officer@cityoflondon.gov.uk) or the Data Protection Officer. Please refer to the full Data Subject Rights' Policy for further details.

## **8. Related Policies / Other Resources**

- [Employee Data Protection Policy](#)
- [Data Subject Rights](#)
- [Retention Policy/Schedules](#)
- [Employee Code of Conduct](#)
- [Communications and Information Systems Use Policy](#)
- [Pupil and Parent Data Protection Policy](#)
- [Information Commissioner's Office](#)
- [General Data Protection Regulation](#)
- [Data Protection Act 2018](#)

## **9. Review**

This policy will be reviewed at least annually or whenever legal or statutory changes demand, by the City of London's Data Protection Officer.

Draft: 1 February 2018

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## Corporation of London Data Protection Policy

This is a statement of the Data Protection policy adopted by Corporation of London to cover its obligations under the 1998 Data Protection Act.

The Corporation of London needs to collect and use certain types of information about people with whom it deals with in order to operate. These include current, past and prospective employees, suppliers, clients/customers, residents, tenants and others with whom it communicates. In addition, it may occasionally be required by law to collect and use certain types of information of this kind to comply with the requirements of government departments for business data, for example. This personal information must be dealt with properly however it is collected, recorded and used – whether on paper, in a computer, or recorded on other material – and there are safeguards to ensure this in the Data Protection Act 1998.

We regard the lawful and correct treatment of personal information by Corporation of London as very important to successful operations, and to maintain confidence between those with whom we deal and ourselves. We ensure that our organisation treats personal information lawfully and correctly.

To this end we fully endorse and adhere to the Principles of Data Protection, as enumerated in the Data Protection Act 1998.

Specifically, the Principles require that personal information:

- Shall be processed fairly and lawfully and, in particular, shall not be processed unless specific conditions are met;
- Shall be obtained only for one or more specified and lawful purposes, and shall not be further processed in any manner incompatible with that purpose or those purposes;
- Shall be adequate, relevant and not excessive in relation to the purpose or purposes for which they are processed;
- Shall be accurate and, where necessary, kept up to date;
- Shall not be kept for longer than is necessary for that purpose or purposes;
- Shall be processed in accordance with the rights of data subjects under the Act;
- Appropriate technical and organisational measures shall be taken against unauthorised or unlawful processing of personal data and against accidental loss or destruction of, or damage to, personal data;
- Shall not be transferred to a country or territory outside the European Economic Area unless that country or territory ensures an adequate level of protection for the rights and freedom of data subjects in relation to the processing of personal data.

Therefore, Corporation of London will, through appropriate management, strict application of criteria and controls:

- Observe fully conditions regarding the fair collection and use of information;

- Meet its legal obligations to specify the purposes for which information is used;
- Collect and processes appropriate information, and only to the extent that it is needed to fulfil operational needs or to comply with any legal requirements;
- Ensure the quality of information used;
- Apply strict checks to determine the length of time information is held;
- Ensure that the rights of people about whom information is held, can be fully exercised under the Act. (These include: the right to be informed that processing is being undertaken, the right of access to one's personal information, the right to prevent processing in certain circumstances and the right to correct rectify, block or erase information which is regarded as wrong information);
- Take appropriate technical and organisational security measures to safeguard personal information;
- Ensure that personal information is not transferred abroad without suitable safeguards.

**In addition, the Corporation of London will endeavour to ensure that:**

- There is someone with specific responsibility for Data Protection in the organisation. (Currently, the Nominated Person is the IS Division Security Officer);
- Everyone managing and handling personal information understands that they are contractually responsible for following good data protection practice;
- Everyone managing and handling personal information is appropriately trained to do so;
- Everyone managing and handling personal information is appropriately supervised;
- Anybody wanting to make enquires about handling personal information knows what to do;
- Queries about handling personal information are promptly and courteously dealt with;
- Methods of handling personal information are clearly described;
- A regular review and audit is made of the way personal information is managed;
- Methods of handling personal information are regularly assessed and evaluated.
- Performance with handling personal information is regularly assessed and evaluated.

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