

## **AUDIT AND RISK MANAGEMENT COMMITTEE**

**Tuesday, 13 September 2016**

Minutes of the meeting of the Audit and Risk Management Committee held at Guildhall on Tuesday, 13 September 2016 at 2.00 pm

### **Present**

#### **Members:**

Alderman Nick Anstee (Chairman)	Deputy Jamie Ingham Clark
Nigel Challis (Deputy Chairman)	Kenneth Ludlam (External Member)
Henry Colthurst	Caroline Mawhood (External Member)
Hilary Daniels (External Member)	Jeremy Mayhew (Ex-Officio Member)
Revd Dr Martin Dudley	Hugh Morris (Ex-Officio Member)
Alderman Peter Estlin	

### **In Attendance**

#### **Officers:**

John Barradell	-	Town Clerk
Peter Lisley	-	Assistant Town Clerk
Gary Locker	-	Town Clerk's Department
Neil Davies	-	Town Clerk's Department
Julie Mayer	-	Town Clerk's Department
Peter Kane	-	Chamberlain
Michael Cogher	-	Comptroller and City Solicitor
Paul Dudley	-	Chamberlain's Department
Chris Keesing	-	Chamberlain's Department
Steve Telling	-	Chamberlain's Department
Simon Woods	-	Chamberlain's Department
Mark Towler	-	Head of Internal Audit and Risk Management
Leigh Lloyd-Thomas	-	BDO
Lucy Nutley	-	Moore Stephens

#### **1. APOLOGIES**

Apologies were received from Sheriff and Alderman Charles Bowman, Alderman Ian Luder, Deputy Roger Chadwick and Graeme Smith.

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

Mr Jamie Ingham Clark declared a general, non-pecuniary, interest in respect of agenda item 10 (Deep Dive Risk Review, Corporate Risk 19 - IT Service Provision) as he had recently been elected as Chairman of the IT Sub Committee.

3. **MINUTES OF THE PREVIOUS MEETING**

The minutes of the meeting held on 18<sup>th</sup> July 2016 were approved.

4. **OUTSTANDING ACTIONS OF THE COMMITTEE**

The Committee received its outstanding actions update and noted the following updates:

- Members' recent request for future risk reports to include a heat map and direction of travel had been included under item 8 on today's agenda.
- In respect of 'risk appetite', the Risk Consultant, who had been working with the City of London Corporation in respect of the External Risk Management Review, would provide an update by the end of September 2016. Members noted that the report on the Review would be presented to the 8<sup>th</sup> November meeting of the Audit and Risk Management Committee.
- The Commissioner of the City of London Police would be attending the next meeting on 8<sup>th</sup> November 2016, when the HMIC report would be presented. The Commissioner would also be attending in respect of the City of London Police's recent Internal Audit report.

5. **COMMITTEE WORK PROGRAMME**

The Committee received its work programme and noted the updates as set out in the above outstanding actions list.

6. **ANTI FRAUD AND INVESTIGATIONS UPDATE**

The Committee received a report of the Chamberlain in respect of recent anti-fraud and investigation activity. The report also provided an analysis of the cases investigated since the start of the 2016/17 reporting year. Members noted that, since the production of this agenda, a successful social housing tenancy fraud prosecution had resulted in an 18 months community order, with 60 hours unpaid work. This case had generated positive publicity about the success of the City of London's enforcement procedures. Members commended this report and the consistent good results achieved by the anti-fraud team.

RESOLVED, that – the report be noted.

7. **INTERNAL AUDIT UPDATE**

The Committee received a report on internal audit activity since the last Committee report, which had been presented at the June 2016 meeting. The report set out the overall opinion of the Head of Internal Audit in relation to the adequacy and effectiveness of the control environment. Members noted the opinion stated that the overall internal control environment was adequate and effective, although some areas required strengthening.

The Head of Internal Audit advised that the team had access to sufficient resources to cover the work outstanding to the end of the year, with no compromise on the quality of the audits. The work plan was also further advanced than at the same time last year. Members suggested that, in future reports, if a target number of audits had not been achieved, there should be a fuller explanation. Members were pleased to note the 28 - 20 day reduction in turning around draft reports as this would also help with resourcing.

RESOLVED, that – the report be noted.

#### 8. **RISK UPDATE**

The Committee received a report of the Chamberlain in respect of the corporate and top red departmental risk registers, following the review by the Chief Officer Risk Management Group (CORMG) on 21 June 2016 and Summit Group on 12 July 2016.

Members noted that, further to their previous request in respect of the City of London Corporation's 'risk appetite', the next risk update report would include guidance from the risk consultant who had been working with the City of London Corporation in respect of the External Risk Management Review. The next report would also include a target risk score in the corporate assessment history report.

RESOLVED, that – the report be noted.

#### 9. **DEEP DIVE: CR01 RESILIENCE RISK - EVENT OR SITUATION RELATED TO TERRORISM OR OTHER SERIOUS EVENT/MAJOR INCIDENT**

The Committee received a 'deep dive' risk review report of the Town Clerk in respect of Corporate Risk CRO1 (Resilience: an event or situation related to terrorism or other serious event/major incident). The report was presented by the Town Clerk, Assistant Town Clerk and the Resilience Manager.

During the discussion and questions the following points were noted:

- The role of the Police, as the likely initial Gold Command, was separate to that of the City of London Corporation. Members noted that the role of the Town Clerk and his Resilience Team would largely come into effect after the initial response to an incident; i.e. during civilian recovery although it was recognised now that Local Authorities should be engaged from the outset. However, Members also noted that, during a recent mock exercise, the Town Clerk had taken over the chair of the Gold Group within 24 hours. The Town Clerk advised that the City of London Corporation enjoyed a very good working relationship with the City of London Police; the Protocols were well developed and available in the public domain.
- The Town Clerk had a high profile role in resilience in London and was Chairman of the London Local Authority Panel and Deputy Chairman of the London Local Resilience Forum and on a callout rota as London Local Authority Gold.; the Assistant Town Clerk supported him in this

role. Members noted that this forum met quarterly in order to agree and sign off the programmes and exercises. The Town Clerk and the Resilience Team were building staff capacity and capability in order to develop generic response skills. Members noted that this skills set should equip the Resilience Team to deal with 90% of all incidents, including the impact of a cyber-attack.

- The Chief Executive on call during a major incident would have a delegation to authorise spending for another authority; i.e. Westminster. Members noted that a sub-regional approach might be adopted in the longer term. The City of London's Co-ordination Centre would support the emergency services.
- There was a new, emerging risk in respect of solar flares (particularly in parts of North American and Northern Europe) and the potential failure of electrical infrastructures. The City of London Corporation had hosted the first multi-table event three months ago, which started discussions. Members noted particular implications for the City; i.e. the impact of the loss of refrigeration and water supplies.
- In order to raise staff awareness, Project Griffin and Argus sessions had been offered to key staff, along with the 'run, hide, tell' campaign. Plans were underway to replace the door entry system with new cards, gates and readers. A Member suggested that staff ID cards carry the emergency response telephone number.
- Whilst remote and home working had improved considerably since 2012, the risk of low temperatures and heavy snow had remained high following an incident 5 years ago, when some local authorities ran out of grit during a particularly harsh winter.

Members commended a thorough and robust report and were satisfied that, given the measures in place as set out above, the City was in as strong a place as it could be.

RESOLVED, that – the report be noted.

#### 10. **DEEP DIVE RISK REVIEW - CR19 - IT SERVICE PROVISION**

The Committee received a 'deep dive' risk review report of the Chamberlain in respect of Corporate Risk CRO19 (IT Service Provision). The report was presented by the Chamberlain and the Head of Information Technology and Acting Chief Information Officer.

Prior to the discussion of this item, Members agreed to exclude the public, should the discussion stray into the possible disclosure of exempt information.

It was therefore RESOLVED, that – under section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following item(s) on the grounds that they involve the likely disclosure of

exempt information as defined in Part 1, paragraphs 1, 2 and 3 of Schedule 12 A of the Local Government Act.

During the discussion and questions the following points were noted:

- The report set out the headlines for a new drive and focus on risk and resilience to ensure that the organisation experienced fewer interruptions to service. Members noted that the Information Technology Sub Committee would receive a more detailed report at its next meeting at the end of September 2016.
- The Head of Information Technology set out his immediate priorities; i.e. the upgrade of the network infrastructure and replacement of ageing equipment, particularly in the West Wing. Members noted that, historically, there had been some under-investment in this area and therefore the new transformation programme would need to be holistic.
- The new vision for IT would be based on 'buy – not build', as this would help to build resilience and reduce dependence on single points of failure.
- Immediate works included remote access, which was being mitigated and testing would be complete over the next couple of weeks in order to fully accommodate home working.

In concluding, the Head of IT advised that he was confident that the measures now in place, as set out in the report, would reduce the risk to amber by next year, with further reductions expected over the next 2 years. The new Chairman of the IT Sub Committee, who is also a Member of the Audit and Risk Management Committee, commended the work of the Head of IT, particularly the recent improvements to the risk register.

Members expressed concern over the historic under-investment and emphasised the importance of skills to manage the outsourced contracts. The Chamberlain welcomed the input from those Members who were skilled in contract management and experienced in outsourced working environments.

RESOLVED, that:

1. The report be noted.
2. This Meeting of the Audit and Risk Management Committee return to public session.

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

There were no questions.

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

The Chairman agreed to the admission of two items of urgent business:

**1. City Fund and Pension Funds Financial Statements 2015/16 – report of the Chamberlain**

The Committee considered a report of the Chamberlain in respect of the City Fund and Pension Funds Financial Statements for 2015/16, together with updated audit findings from BDO. Following completion of the review of the financial statements by BDO, changes to the 31 March 2016 City Fund Balance Sheet between July and September 2016 were set out.

Members noted that the overall change was a net reduction of £0.5m, in relation to total net assets of nearly £1.6 billion and that a number of the adjustments related to leases. The Chamberlain reminded Members that the officers have to prepare hundreds of complex lease entries, many of which had not been reviewed in time for the last meeting on 18<sup>th</sup> July 2016. The External Auditor confirmed that the financial statements were being updated for the adjustments and that he would be providing an unqualified opinion, with the financial statements being signed off next week. In light of the adjustments, as set out in the report, the Chamberlain offered to provide an action plan to the next meeting of the Audit and Risk Management Committee, in order to reduce the need for such changes in future years.

In respect of the disclosure notes in the accounts, a post balance sheet event note on Brexit would not be included, given that it was still too early to assess any medium/long term impact, which is the basis on which the City's asset allocation and wider investment strategy decisions were made. Also, asset and liability values changed from day to day, due to any number of factors of which Brexit is only one. Therefore, officers considered that the disclosure would require significant amounts of work for little value.

Members noted that, as the changes to the financial statements were relatively immaterial, the report would not be presented to the Finance Committee and the financial statements would be signed by the Chairman and Deputy Chairman of that Committee, using the previously approved delegated authority.

In concluding, the Chairman and Members congratulated the Chamberlain and his Team for their work on a complex set of accounts and the External Auditors for their thorough scrutiny. Finally, Members noted that this would be the last meeting attended by Steve Telling, the Deputy Financial Services Director, who would be retiring at the end of the month. The Committee thanked Mr Telling for his sterling work over many years and wished him well for the future.

RESOLVED, That – having reviewed the contents of BDO’s latest reports on the City Fund and Pension Funds Financial Statements 2015/16, they be recommended to the Finance Committee for approval.

## 2 Expiration of Term of an External Member (March 2017)

The Chairman was heard in respect of the expiration of the term of one of Committee’s External Members, Mr Kenneth Ludlam. Mr Ludlam decided to leave the room during the discussion. Members noted that Mr Ludlam’s second term would expire in 2017 and Members were reminded that, in 2014 and 2015, they had agreed to extend the Membership of all three External Members to another term, so that their term expired in 2017, 18 and 19. Subsequently, the Town Clerk had reported this recommendation to the Court of Common Council, with an expectation that the norm be for a period of 2 terms.

Members noted that it was not unusual for External Members to serve 3 terms in other local authorities but generally no more than this. Members agreed that Mr Ludlam made a valuable contribution to both the Audit and Risk Management and Police Performance and Resources Sub Committee and noted his willingness to serve for a further term.

RESOLVED, that –

1. Mr Ludlam be invited to submit a CV, to be appended to a report of the Town Clerk, to the next meeting of the Audit and Risk Management Committee on 8<sup>th</sup> November 2016, to enable Members to consider a possible extension of the external membership of Mr Kenneth Ludlam to a third term
2. If Members are minded to extend Mr Ludlam’s membership to a third term, it be recommended for a final decision at the Court of Common Council in December 2016.

**The meeting ended at 4pm**

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Chairman

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