



Audit and Risk Management Committee

Date: TUESDAY, 15 OCTOBER 2013
Time: 1.45pm
Venue: COMMITTEE ROOM 2 - COMMITTEE ROOMS

Members: Jeremy Mayhew (Chairman)
Alderman Nick Anstee (Deputy Chairman)
Alderman Ian Luder
Nigel Challis
Hilary Daniels (External Member)
Revd Dr Martin Dudley
Deputy Robin Eve
Oliver Lodge
Kenneth Ludlam (External Member)
Caroline Mawhood (External Member)
Jeremy Simons
Ray Catt (Ex-Officio Member)
Roger Chadwick (Ex-Officio Member)
Hugh Morris (Ex-Officio Member)
Jamie Ingham Clark
Bennett

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Lunch will be served in the Guildhall Club at 1pm

John Barradell
Town Clerk and Chief Executive

AGENDA

Part 1 - Public Agenda

1. **APOLOGIES**
2. **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 17 September 2013

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

For Information
(Pages 5 - 6)
5. **STRATEGIC REVIEW 8 - MANAGING THE CITY OF LONDON CORPORATION'S REPUTATION**
Report of the Director of Public Relations

For Decision
(Pages 7 - 10)
6. **STRATEGIC REVIEW 10 - ADVERSE POLITICAL DEVELOPMENTS**
Report of the Remembrancer

For Decision
(Pages 11 - 22)
7. **AUDITED 2012/13 CITY'S CASH FINANCIAL STATEMENTS 2012/13 - SUBJECT TO AUDIT**
Report of the Chamberlain

For Decision
(Pages 23 - 96)
8. **INDEPENDENT REVIEW OF RISK MANAGEMENT**
Report of the Chamberlain

For Decision
(Pages 97 - 124)
9. **INTERNAL AUDIT PLANNING 2014/15**
Report of the Chamberlain

For Information
(Pages 125 - 142)

10. **INTERNAL AUDIT CHARTER**
Report of the Chamberlain

For Decision
(Pages 143 - 152)

11. **PLANNING GOVERNANCE REVIEW**
Report of the Town Clerk

(Pages 153 - 160)

12. **COMMITTEE WORK PROGRAMME**
Report of the Town Clerk.

For Information
(Pages 161 - 164)

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

For Decision

14. **ANY OTHER BUSINESS WHICH THE CHAIRMAN CONSIDERS URGENT**

For Decision

15. **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

16. **STRATEGIC RISK SR8 - MANAGING THE CITY OF LONDON CORPORATION'S REPUTATION**
Report of the Director of Public Relations

For Decision
(Pages 165 - 168)

17. **STRATEGIC RISK 10 - ADVERSE POLITICAL DEVELOPMENTS**
Report of the Remembrancer

For Decision
(Pages 169 - 176)

18. **UPDATE ON CROSSRAIL COMMITMENTS**

Report of the Chamberlain

For Information
(Pages 177 - 178)

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

The Chairman has agreed to accept an urgent report of the Chamberlain

For Decision
(Pages 179 - 184)

20. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE WHILST THE PUBLIC ARE EXCLUDED**

For Decision

Part 3 - Confidential Agenda

21. **CONFIDENTIAL MINUTES OF THE PREVIOUS MEETING**

To agree the Confidential minutes of the meeting held on 17 September 2013

For Decision

Agenda Item 3

AUDIT AND RISK MANAGEMENT COMMITTEE

Tuesday, 17 September 2013

Minutes of the meeting of the Audit and Risk Management Committee held at Guildhall, EC2 on Tuesday, 17 September 2013 at 1.45pm

Present

Members:

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

Officers:

Susan Attard	- Town Clerk's Department
Neil Davies	- Town Clerk's Department
Chris Bilsland	- Chamberlain
Caroline Al-Beyerty	- Chamberlain's Department
Suzanne Jones	- Chamberlain's Department
Michael Cogher	- Comptroller and City Solicitor
Paul Nagle	- Internal Audit
Sabir Ali	- Internal Audit
Chris Keesing	- Internal Audit
Julie Mayer	- Town Clerk's Department
Ian Harrison	- Town Clerk's Department
Sue Ireland	- Director of Open Spaces

1. APOLOGIES

Apologies were received from Deputy Robin Eve, Oliver Lodge, Ray Catt and Roger Chadwick.

2. DECLARATIONS BY MEMBERS UNDER THE CODE OF CONDUCT

There were no declarations.

3. MINUTES OF THE PREVIOUS MEETING

The public minutes and non-public summary of the meeting held on 23 July 2013 were approved.

4. **OUTSTANDING ACTIONS OF THE COMMITTEE**

All outstanding actions were discharged, with the exception of the following, which would remain on the outstanding actions list:

- Internal Audit Recommendations – to be included in Chief Officer appraisals (on-going)
- Possible future publication of City's Cash – liaison with External Auditors
- Length and volume of ARM agendas – on-going, but improvement noted
- International Centre for Financial Regulation – on-going
- Cash Handling and Banking Audit – on today's agenda, with a further update in December
- Planning Governance – report due in October
- Risk Management Improvement Plan – report due in December
- Induction for new Members – one induction outstanding

5. **STRATEGIC RISK 1: FAILURE TO RESPOND TO A TERRORIST ATTACK AND STRATEGIC RISK 13: FAILURE TO MANAGE EFFECTIVELY THE NEGATIVE IMPACTS ARISING FROM PUBLIC ORDER AND PROTEST**

The Committee received a report of the Town Clerk and, whilst noting that it had been marked '*for information*', it was agreed that this and similar reports sought to endorse officers' judgement on the scoring of the risk. Given that this was an area of policy, rather than a direct police matter, the Chairman of Policy was in attendance. The Chairman (of Policy) advised that he had consulted officers and was satisfied with the City's on-going relationships with neighbouring boroughs, post the Olympics. Members noted that an exercise had been planned for later in the week testing general responsiveness and that the Emergency Plan was compliant with the Civil Contingencies Act. Whilst accepting the officer's recommendation, Members agreed that the risk's 'green' status should be closely monitored.

RESOLVED – that:

The decision to score SR1 at Amber (Failure to respond to a Terrorist Attack) and SR13 as Green (Failure to manage effectively the negative impacts arising from public order incidents and protests) be endorsed.

6. **INTERNAL AUDIT SATISFACTION REVIEW**

The Committee received a report of the Chamberlain, following its request for a wider review on the level of customer satisfaction with services provided by Internal Audit. Members commended a helpful report, with a balanced conclusion, and noted that the review had resulted in an action list, which would be reported to the Audit and Risk Management Committee in 6 months' time. Officers also planned to repeat the exercise, with a different set of Chief Officers. The Chairman and Members strongly agreed that participation should not be delegated to less senior officers, given that responsiveness to Internal Audit recommendations will feature in Chief Officers' appraisals. The Business Support Director advised that Audit and Risk Management would be discussed at the Chief Officer Group in November

7. **INTERNAL AUDIT RECOMMENDATIONS FOLLOW UP REPORT**

The Committee received a report of the Chamberlain, which provided an update on the implementation of Audit Recommendations by Management since the last update. In response to a question about slippages in implementing recommendations, the Head of Internal Audit and Risk Management advised that, in the last few months, there had been no unauthorised slippages. Members were reminded that both the Chamberlain and Chairman were part of the escalation process, if necessary. Whilst Members agreed that the challenge to departments was working, they felt that original target timescales should be realistic and then should be delivered.

The Director of Open Spaces was in attendance in respect of the outstanding recommendations for Chingford Golf Club. The Director explained that the complexities of the project had been underestimated, but the Head of Internal Audit and Risk Management confirmed that the Department had fully co-operated throughout.

8. **INTERNAL AUDIT UPDATE REPORT**

The Committee received a report of the Chamberlain and welcomed its new, succinct format. In respect of a query about the independence of the role of the Head of Internal Audit, the Chamberlain assured members that, as Chief Financial Officer, he was responsible for the Internal Audit function and any challenge to the Head of Internal Audit's report would have to be transparent. Members suggested that it might be helpful to state this independence at the beginning of Internal Audit reports.

When questioned about the slippages on some aspects of the Audit Plan, the Head of Internal Audit and Risk Management explained that some plans had been deferred or cancelled due to changes in business plans or restructures. Additional resources had been channelled into large-scale investigations (as set out in the confidential part of today's agenda) and the team had been carrying some vacancies - recruitment was currently being undertaken.

Whilst supporting Internal Audit's input into the Performance and Efficiency Sub Committee, the Chairman felt that this should not compromise the delivery of its core activities. The Chamberlain advised Members that, in the current climate, a modern audit function should be able to offer advice on value for money as well as probity. In concluding, the Chairman offered the Committee's on-going support should the Head of Internal Audit and Risk Management feel that its core activities were being compromised.

9. **ANTI-FRAUD AND INVESTIGATION UPDATE REPORT**

The Committee received a report of the Chamberlain, which provided members with an update of investigation activity since the last meeting of the Audit and Risk Management Committee. In response to a question about the fraud awareness e-learning course, officers advised that the response rate was currently at 50%, with a closing date of 1 October. The Chairman asked to see a list of completions by department and offered to write to all departments with low response rates. Members suggested that remote locations be checked for access to the course.

10. **RISK MANAGEMENT UPDATE**

The Committee received a report of the Chamberlain, which had also been considered by the Officer Summit Group. Members noted that chief officers were considering both a 5x5 and 4x4 risk matrix and SR14 was being redrafted, in light of the recently announced Local Government Finance Settlement. The Chamberlain advised that there would be an update on SR14 as part of the December Risk Update report.

11. **COMMITTEE WORK PROGRAMME**

Members noted the Committee's Workplan to the end of 2014

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

There were no questions

13. **ANY OTHER BUSINESS WHICH THE CHAIRMAN CONSIDERS URGENT**

There were no items of urgent business.

14. **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 involved the likely disclosure of exempt information as defined in Part 1 of the Schedule 12A of the Local Government Act

Items 15 & 16

Paragraph Nos 1, 2 & 3

Items 17 & 18

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15. **ANTI-FRAUD AND INVESTIGATION UP-DATE REPORT - PART 2**

The Committee received a confidential report of the Chamberlain.

16. **CASH HANDLING AND BANKING AUDIT - UPDATE REPORT**

The Committee received a confidential report of the Chamberlain.

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 of urgent business.

The meeting ended at 3.40 pm

Chairman

Contact Officer: Julie Mayer 020 7 332 1410 julie.mayer@cityoflondon.gov.uk

AUDIT AND RISK MANAGEMENT COMMITTEE - Outstanding Actions

Item	Action	Officer responsible	Progress updates/target
Risk Management Improvement Plan	Review the language within risk guidance to avoid using terms with negative connotations.	Suzanne Jones/ Sabir Ali	To be included in the work on the risk management improvement plan, this will come back to the Committee in December.
Internal Audit Recommendations follow-up report	Deputy Town Clerk agreed that the timely implementation of Internal Audit recommendations would be included in Chief Officer appraisals.	Susan Attard	On-going. Committee to be advised as to how it will be kept informed.
International Centre for Financial Regulation	Chamberlain advised Members to await the outcome of the police report, before taking a view about risk assurance implications.	Chris Bilisland	Further to the outcome of the police report, Members will be updated on risk assurance implications and advised of the likely timings, which are currently difficult to predict. Once they are known, there might be scope to look into 'lessons learnt' in terms of audit and risk processes.
Planning Governance	A review of the Director of the Built Environment's new processes and procedures to be undertaken after their first year of operation, in the context of the governance concerns expressed by Alderman Anstee. It was agreed at ARM on 5 March that, in addition to being able to use 'external expertise', stakeholders should be included in the consultation.	Susan Attard (Review to be led by the Town Clerk)	The Review is scheduled for the Audit and Risk Management Committee in October
Cash Handling and Banking Audit	The Committee would receive a full update in September	Paul Nagle	Members will receive a full update in December with action plans for agreed recommendations.
Publication of City's Cash	Liaison with External Auditors	Caroline Al-Beyerty	Scheduled for the Audit and Risk Management Committee in October and the Finance Committee in November.
General	There was a general agreement that the agenda packs for the Committee were rather lengthy. The Chairman suggested that cover reports be self-contained and asked the Chamberlain, Internal Audit and Town Clerk to consider more efficient ways of presenting information to Members.	All to note/action	On-going

AUDIT AND RISK MANAGEMENT COMMITTEE - Outstanding Actions

Internal Audit Satisfaction Review	<ol style="list-style-type: none"> 1. The review had resulted in an action list, which would be reported to the Committee in January 2014. 2. The exercise to be repeated with a different set of Chief Officers. 	Paul Nagle/Suzanne Jones	<ol style="list-style-type: none"> 1. January 2014 2. Further interviews are planned for November and December 2013, to be reported in the January Update Report.
Anti-Fraud and Investigation update report	The Chairman asked to see a list of completions by department and offered to write to all departments with low response rates. Remote locations to be checked for access to the course.	Chris Keesing	Committee to receive a briefing at its Meeting in October on the level of response.

Agenda Item 5

Committee(s):	Date(s):
Audit and Risk Management Committee	15th October 2013
Subject: Strategic risk SR8 - Managing the City of London Corporation's reputation	Public
Report of: Director of Public Relations	For Decision
Summary This report sets out briefly the background to the management of Strategic Risk No 8 – the management of the City of London Corporation's reputation. It specifies the nature of the risks, the procedures in place to tackle them and the integral part which this work plays in the implementation of the overall Communications Strategy.	
Recommendations The Committee is recommended to endorse contents of this report.	

Main Report

Background

1. Like all organisations, the protection and enhancement of its reputation is an integral part of the work of the City of London Corporation. The lead responsibility for this rests with the Director of Public Relations and the Public Relations Office. The overall approach to this work is set out in the Communications Strategy, 2013-16, approved in March 2013. The relevant section of the Strategy is attached at appendix A. Detailed arrangements are also in place to ensure that this work is carried out in a fully integrated way with all relevant committees and departments, including appropriate regular meetings to review the current position and advise on the best way to handle particular issues, as and when they arise.

Current Position

2. The current entry on the risk register for this risk (SR 8) is attached at appendix B. Various mitigating controls are in place as follows:
 - 2.1. Work proceeds to implement the focus of the communications work in relation to the services which the organisation provides, as specified in the current Communications Strategy (in addition to the continuing work on financial services issues). Detailed reports on the progress with these activities are provided quarterly to the Policy and Resources Committee;
 - 2.2. The City Corporation's retained public affairs consultants, Quiller Consultants Ltd, provide, inter alia, detailed external advice and guidance on the management of reputational risk, through regular discussions with senior Members and officers;

- 2.3. The Director gives the highest priority to ensuring that the staffing arrangements of the PR Office encompass all the necessary skills, knowledge, experience and approach that assists in preparing in advance for possible risks to the reputation of the organisation and handling them effectively, as and when they arise. This includes continuously placing the highest priority on the need to keep a close watch on this aspect of the organisation's work;
 - 2.4. The Director ensures regular liaison with Chairmen and Deputy Chairmen of Committees, chief officers and departmental communications representatives (including a regular meeting of the latter), whereby the reputational risks from all policy decisions and other aspects of the organisation's work can be closely monitored;
 - 2.5. Regular public relations training and guidance is provided for departmental communications representatives with responsibility for handling day-to-day communications issues in coordination with the PR Office;
 - 2.6. Each departmental risk register is reviewed carefully on a regular basis, by both the audit and risk management team and PRO staff, to make sure that all potential reputational risks are managed appropriately.
3. There are a number of substantial potential and current reputational risks which are set out in the attached entry in the risk register. Detailed plans are in place to monitor and manage each of these risks.

Conclusion

4. This report sets out briefly the current position on the management of reputational risk within the organisation, which the Committee is asked to consider and note.

Background Papers:

- City of London Communications Strategy, 2013-16

Appendices

- Appendix A: Relevant section of the Communications Strategy, 2013-16
- Appendix B: Strategic Risk 8, Negative publicity and damage to the City Corporation's reputation.

Tony Halmos

Director of Public Relations

T: 0207 332 1450

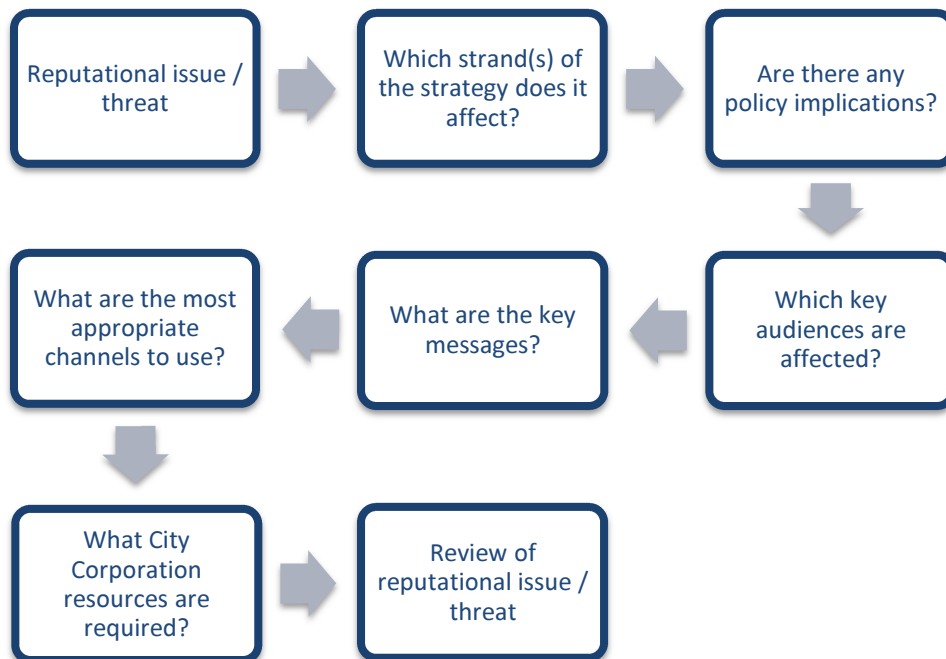
E: Tony.Halmos@cityoflondon.gov.uk

Appendix A

Extract from *City of London Communications Strategy, 2013-16*.

Reputation and risk management

One of the key roles of the Communications Strategy is to embed across the organisation the importance of managing reputational risk. The diagram below demonstrates the way in which we plan to handle any specific threat to the organisation's reputation.



In both the run-up to and the aftermath of the elections to the Common Council in March, critics of the City Corporation are likely to raise concerns which challenge the legitimacy of the organisation. Criticisms may focus on issues relating to the electoral process, our financial transparency and our engagement with policy makers. This is the context in which all parts of the organisation need to recognise that they operate.

To increase the recognition of the services provided by the City Corporation across London, we will be giving emphasis to the work done to support London's communities, and to help look after London's heritage and green spaces.

Across the organisation, there is a continually growing awareness of the emerging role of new and social media, specifically in relation to the management of reputational risk and we have developed a strategy for this, including relevant training of an ever-wider group of City Corporation staff.

Risk Supporting Statement SR 8

Risk Owner: Town Clerk / Director of Public Relations

Risk	Negative publicity and damage to the City Corporation's reputation. Links to: Strategic Aims SA1, SA2 and SA3 and Key Policy Priorities KPP1, KPP2, KPP3, KPP4 and KPP5	Gross Risk		R
		Likelihood	Impact	
		4	4	

Detail	<p>This risk may materialise as a result external factors or failure to manage risk within the operations of the organisation. There will always be an inherent risk around reputation, but the specific threats present at any one time will vary depending on the nature of key projects, internal and external developments or factors. A shortlist of the most significant issues is maintained, updated by the Director of Public Relations on a quarterly basis, using information gained from on-going liaison with departments and, in future as risk management becomes embedded, through examination of departmental risk registers. In addition to the shortlist below, there is a broad risk in relation to negative publicity or adverse media comment following failure of service delivery. The likelihood and impact of this is very much dependent upon the circumstances and outcome of the failure.</p>
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<p>Issues</p> <p>Page 10</p>	<p>Controls</p> <p>Communications strategy in place</p> <ul style="list-style-type: none"> - Experienced media/communications team with the right skills to handle reputation issues. - Regular liaison with Committees and departments including through departmental communication representative meetings etc, aiming to ensure the overall reputation of the organisation is kept under close review during all policy deliberations - Regular PR training sessions held for departmental communications representatives - Examination of departmental risk registers to identify emerging issues - Working with public affairs consultants to improve City Corporation's ability to respond to PR challenges
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Summary and Further Action Summary: Shortlist of Key Issues	Likelihood	Impact	Net Risk		A
			Likelihood	Impact	
(a) Hampstead Heath Hydrology and related issues	2	5	3	4	Control Evaluation
(b) London Living Wage	5	3			
(c) Debate around the transparency and accountability for City's Cash	4	3			
(d) Adverse comment or publicity on the role and purpose and governance of the City Corporation	3	3			
(e) Managing the impact of street works on visitors, residents and workers	5	3			
(f) Keeping website up-to-date and effective as a communications tool	1	3			
(g) Adverse publicity from any failures of performance by City Schools	3	3			
					G

Agenda Item 6

Committee(s):	Date(s):	Item no.
Audit & Risk Management	15 October 2013	
Subject: Strategic Risk 10 – Adverse Political Developments	Public	
Report of: Remembrancer	For Decision	
<u>Summary</u>		
<p>This Report provides this Committee with an overview of Corporate Strategic Risk 10 (SR10) for which the Remembrancer is the risk owner. The report describes the risk and the mitigating controls.</p>		
<u>Recommendation</u>		
<p>The Committee are asked to endorse the contents of this Report.</p>		

Main Report

Background

1. SR 10 is defined as “adverse political developments undermining the effectiveness of the City of London Corporation”. Unlike many strategic risks, SR10 encompasses a wide range of risks including those from changes in neighbouring boroughs, London government and national government, and the general political climate.
2. The role of the City Corporation is subject to continuing adverse comments from politicians in the wake of the financial crisis, general criticism of “the City” as well as a failure by critics to distinguish between banking and other sections of the financial services sector and between the majority of banks in London, which were not involved in the crisis, and those banks which were involved. Recent Parliamentary developments of actual or potential relevance to the City range from the tabling of an Early Day Motion, calling for the London Living Wage to be paid to cleaning staff at the Barbican Centre; an issue which has been resolved, to the introduction of the Lobbying Bill.
3. The increased use of shared services between London authorities could ultimately lead to a London government review aimed at creating larger local authority areas, a foretaste of which can be seen in moves to share services among Westminster, Hammersmith & Fulham and Kensington & Chelsea. Such a review would be a challenge to the City as a distinct administrative unit. The Mayor of London has supported the calls of the London Finance Commission for greater retention of revenue generated

by taxes levied in London. The rationale for maintaining the City as a separate unit of government, and specifically the extent to which the contribution made by the Corporation is not limited by the geographical boundary of the Square Mile, therefore needs to continue to be made to policymakers and legislators.

4. A further aspect of the strategic risk is that the City Corporation's constitution and operational capacities could be undermined by legislation which failed to acknowledge the City's unique position. This situation could arise cumulatively, rather than through a single piece of legislation. The City depends on legislative exceptions in many fields; securing them ultimately depends on achieving political support, or at least acquiescence.

Mitigating Measures

5. The impact of the risk is mitigated by the activity of the Office in promoting the wider work of the City Corporation in relation to its support for business and professional services and its relevance to many different interests - for example, commercial diplomacy, culture, open spaces, health and education, as well as in looking after its residents. This activity generates widespread support and helps give rise to a positive view of the Corporation. *Please see Appendix 2 - (Results of triennial opinion polling of the City of London Corporation's key audiences – report to Policy and Resources Committee – October 2013)*
6. 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.
7. The Office evaluates primary and secondary legislation relating to the entire matrix of City and City Corporation internal and external interests. Where legislation presented to Parliament would have adverse consequences, discussion takes place at official level and, if necessary, amendments are pursued in either House. Select committees are regularly provided with briefings on the City Corporation's position and contributions are made to Select Committee enquiries.
8. The Office works closely with departments across the City Corporation, but in particular with PRO, Mansion House and EDO. The Office's work is overseen by the Policy & Resources Committee. The work of other departments - in areas such as media, political contact and research, is integral to the delivery of the objective of protecting the City's interests.

Conclusion

9. The assessment of the gross risk has remained the same. Net risk has been reassessed at the same level as at this stage last year: likelihood at 1 and impact at 5. The assessments were varied during the year to reflect a somewhat greater likelihood, given the forthcoming City elections, of publicity being attracted to views critical of the City Corporation, but a slightly reduced potential impact, in the light of the Government's legislative programme having been fixed (and bills produced) at that point for the session.
10. The mitigating controls are well tested and flexibly implemented. They range from informal discussions with officials to tabling amendments on the floor of the House. They may be operated in conjunction with activity by the Public Relations Office, EDO or Mansion House. The most effective means will depend on the nature of the issue and the circumstances in which it arises.

Appendix 1 – SR10 Adverse Political Developments – Extract from Strategic Risk Register

Appendix 2 - (Results of triennial opinion polling of the City of London Corporation's key audiences – report to Policy and Resources Committee – October 2013). The full consultation is available on line at:

<http://democracy.cityoflondon.gov.uk/ieListDocuments.aspx?CIId=395&MIId=1184&Ver=4>

Contact:

Paul Double | paul.double@cityoflondon.gov.uk |

Risk	Adverse political developments undermining the effectiveness of the City of London Corporation Links to: all Strategic Aims and Key Policy Priorities.	Gross Risk		R
		Likelihood	Impact	
		5	5	

Detail	Owing to its nature and geographical size, the City Corporation is particularly vulnerable to political developments concerning London government. There are two main issues at present: the continuing aftermath of the financial crisis with the resulting close scrutiny of the City Corporation, and the longer term threat to the local authority functions from sharing of services and a possible London Government review.
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<u>Specific Issues</u> The current problems in the financial system have provoked unfounded allegations of undue influence and partial accounts of the City Corporation's lobbying activities and deployment of "City's Cash". A review of London government is not currently envisaged but the increased interest in sharing services (and offices) between authorities and Boundary Commission proposals may reinstate earlier suggestions for 5 or 6 "super boroughs", raising concerns around the viability of a separate administration for the Square Mile.	<u>Mitigating Controls</u> Promotion of the good work of the City Corporation. City Corporation needs to remain relevant and "doing a good job" and be seen as such. (All Chief Officers.) This risk has a Low (1) likelihood, but potentially Catastrophic (5) impact.
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<u>Summary and Further Action</u> The organisation needs to ensure it is seen as important and relevant across a wide field of activities that are not geographically limited to the Square Mile or to the future of the financial sector alone. Current public affairs activities should be maintained to this end. Any functions which may be vulnerable on account of their size if kept as free standing operations need to be identified and the case for ameliorating action (e.g. partnerships, shared services) considered.	Net Risk		A
	Likelihood	Impact	
	1	5	
	Control Evaluation		

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Committee: Policy and Resources	Date: 10 October 2013
Subject: Results of triennial opinion polling of the City of London Corporation's key audiences	
Report of: Director of Public Relations	Public For Information
<p style="text-align: center;"><u>Summary</u></p> <p>This report summarises the results of the latest polling of key audiences (senior City executives, City businesses, City workers, and City residents) commissioned by the City of London Corporation, and conducted by TNS between April and June 2013.</p> <p>The City of London Corporation has conducted comprehensive, triennial surveys of its key audiences since 2000. These surveys are used to ascertain attitudes and perceptions amongst a cross-section of our key audiences and stakeholders as identified in successive <i>Communications Strategies</i>; the results, once analysed, inform the organisation's strategic planning, communications strategy, and service delivery.</p> <p>Chief Officers will consider any appropriate recommendations for their service Committees and the outcome of this process will be brought to your Committee in due course</p> <p style="text-align: center;"><u>Recommendation</u></p> <p>The Committee is recommended to note the contents of this summary Report of findings and key issues arising, plus the longer report compiled by TNS which has been circulated separately as <i>Appendix 1</i> to this report.</p>	

Introduction

1. The City of London Corporation has conducted comprehensive, triennial surveys of its key audiences since 2000 (and one audience – senior City executives – for considerably longer). These surveys were undertaken by Ipsos MORI until 2006 and by TNS in 2009. These surveys are used to ascertain attitudes and perceptions amongst a cross-section of our key audiences and stakeholders as identified in successive *Communications Strategies*; the results, once analysed, inform the organisation's strategic planning, communications strategy, and service delivery.
2. The latest survey series were due to take place in 2012, but it was decided to delay the fieldwork for a year to avoid a clash with the Queen's Diamond Jubilee and the Olympic and Paralympic Games. A tendering process was carried out between January and February 2013 and the contract was awarded to TNS, the leading international market research agency which is part of WPP Group plc.

3. Polling was conducted by TNS between April and June 2013. As previously, four separate extensive polls were undertaken of the City's key audiences: senior City executives, City businesses, City workers and City residents.
4. A presentation to Members of the survey results is due to be made by TNS after the December meeting of the Court of Common Council. There will also be an opportunity for Members to ask questions after the presentation.

Summary of key findings

5. Attitudes to the City of London

- Satisfaction with the City of London as a place to live/work/run a business remains high, with over nine in ten satisfied with the local area across all four audiences (net satisfaction levels are 93% with residents, 89% with workers, 93% with senior executives, and 89% with businesses). Satisfaction amongst businesses has increased significantly since 2009 (84% to 93%), while the changes for the other audiences were not significant.
- Traffic congestion and public transport/commuting are seen as key priorities by both businesses and workers to improve the City of London as a place to do business/work.

6. Attitudes to the City of London Corporation

- The majority of all four audiences are satisfied with the way the City of London Corporation runs things; satisfaction is highest amongst residents (87% satisfied with 5% dissatisfied) then senior executives (85% versus 1 %) then workers (75% versus 3%) and businesses (69% versus 5%). There have been no significant shifts in satisfaction since 2009.
- The perception of 'value for money' follows a similar trend: 73% of residents believe the Corporation offers value for money compared to 9% who believe that it does not; for senior executives the figures are 61% and 2%; for workers the figures are 49% and 10%; and, for businesses the figures are 40% and 12%. This is a new question.
- Continuing this pattern, familiarity with the City Corporation is highest amongst residents where 67% know it very well or a fair amount; this compares to 51% for senior executives, 36% for workers and 29% for businesses. The business figure is a significant fall from the 39% measured in 2009.
- A logical explanation for the fall in business's familiarity with the City Corporation is the large number of new businesses in the City, as there is a correlation between familiarity with the City Corporation and the number of years a business has been established here. Worryingly, for businesses that have been in the City less than 5 years, only 12% felt that they knew the City Corporation very well or a fair amount whereas, 44% felt they did not know it at all.
- When asked whether they felt that the City Corporation's role in promoting the City and representing its interests at home and abroad should be increased, decreased or remain the same, 59% of senior executives and 61% of businesses felt it should be increased, 39% of

senior executives and 31% of businesses felt it should remain the same. No senior executives and only 1% of businesses felt it should be decreased. 87% of senior executives felt that the role of the Lord Mayor was very relevant or fairly relevant compared to 11% who felt that it was not very relevant or not at all relevant.

7. Satisfaction with specific services

This table summarises the significant changes in satisfaction with City Corporation and non-City Corporation services since 2009:

	Significant increase in satisfaction (2013 figure)	Significant decrease in satisfaction (2013 figure)
Residents	London Underground +10% (89%) Train Services +11% (85%)	Archives -15% (19%) Libraries -11% (69%) Environmental health -10% (54%) Adult Education -10% (28%) Consumer protection/trading standards -10% (24%) Youth Activities -10% (16%)
Businesses	London Underground +21% (87%) Recycling +11% (57%) Shopping Facilities +7% (85%)	Libraries -12% (34%) Open Spaces -7% (70%) Adult Education -7% (26%)
Workers	Shopping Facilities +9% (83%) Museum of London +8% (65%)	Open Spaces -8% (62%)
Senior Executives	London Underground +26% (76%) Barbican Centre +19% (68%) Shopping Facilities +13% (79%) Other support for the Arts +13% (79%) Train Services +12% (68%) Bars & Restaurants +8% (95%)	

- The only service to record a negative net satisfaction rating was public conveniences (-14% for workers and -12% for businesses). This is a new question that was not asked in 2009.
- Additional analysis was performed by postcode to see if there was any geographical explanation for the falls in satisfaction; however, there were no significant geographical explanations. TNS were very keen to point out that, while there have been some falls in satisfaction with services, the figures are actually very good when compared to similar results from other local authorities.

8. Communication Channels

How City residents, workers, and businesses learn about City of London activities:

City Residents	City Workers	City Businesses
Cityview (47%)	Metro (23%)	Mailshots (18%)
Mailshots (40%)	Experience of working in the City (23%)	City Corporation website (16%)
City Resident (27%)	Evening Standard (19%)	City Corporation emails (10%)
City Corporation Website (21%)		

- These figures are broadly similar to those observed in 2009.

How City residents, workers, businesses, and senior executives would prefer to learn about City of London activities:

City Residents	City Workers	City Businesses	Senior Executives
Mailshots (34%)	Metro (30%)	City Corporation emails (45%)	City Corporation emails (52%)
Cityview (28%)	City Corporation emails (19%)	City Corporation website (22%)	City Corporation website (28%)
City Corporation emails (21%)	Evening Standard (18%)	Mailshots (18%)	Newspapers (21%)
City Corporation website (19%)			

- The proportion preferring email has increased for all audiences since 2009.

9. City Competitiveness

- New York remains the city seen as the main competitive challenge to the City of London; 41% of senior executives consider it ‘a great challenge’. Singapore and Hong Kong are more likely to be seen as competitive challenges than in 2009, with 23% considering Singapore and 17% considering Hong Kong as ‘a great challenge’. In addition, many senior executives expect their firms to conduct more business with Asian markets in the next five years, in particular Hong Kong (27%) and Singapore (37%).
- Regulation is the main issue executives feel may jeopardise the City’s long term status as a leading global financial centre, with 72% mentioning European regulation (an increase of 21% from 2009) and 65% mentioning UK regulation. Taxation is also seen as a concern by nearly half (46%), but less so than in 2009 (down 14%).
- There has been a significant rise in the number of senior executives who feel that immigration controls/visa issues could jeopardise the City’s long term status – up 9% to 13%.

10. Policy issues

- In response to the question ‘If Britain was to vote to leave the EU, what impact would that have on your business here in the City of London?’, 69% of senior executives feel that the UK leaving the European Union would have a negative impact on their business in the City of London, compared to 9% who feel it would have a positive impact. 14% thought that it would have no impact and 8% did not know.
- 23% of senior executives are satisfied with current arrangements for businesses visitor visas for non-EU citizens, compared to 47% who are dissatisfied. 23 % were neutral and 7% did not know.

Key Issues

11. The key issues arising from the polling can be summarised as follows:

- i. Analysis by postcode showed that there was no clear geographical explanation for the decline in satisfaction with some services since 2009. The pollsters TNS were very keen to point out that, while there have been some falls in satisfaction with some services, the figures are actually very good when compared to similar results from other local authorities. However, it would be appropriate to examine further as far as possible the reasons for these changes.
- ii. The only service to record a negative net satisfaction rating was public conveniences (-14% for workers and -12% for businesses). While a scheme does exist that allows the public open access to lavatories in bars and pubs it is clear that efforts to further publicise and raise awareness of the scheme need to be redoubled.
- iii. The awareness that businesses have of the City Corporation has fallen since 2009 with 29% feeling they know it very well or a fair amount compared to 39% in 2009. A logical explanation for the fall in business’s familiarity with the City Corporation is the large number of new businesses in the City, as there is a correlation between familiarity with the City Corporation and the number of years a business has been established here. Worryingly, for businesses that have been in the City less than 5 years only 12% felt that they knew the City Corporation very well or a fair amount, whereas 44% felt they did not know it at all. The City Corporation needs to give further consideration to how it engages with businesses as they newly become established in the City.
- iv. The proportion saying that they would prefer contact with the City Corporation by email has increased significantly for all audiences since 2009. A study should be carried out by officers into how this could best be achieved.

Work will be undertaken by officers in each of these area and appropriate recommendations will be submitted in due course to this Committee and relevant Service Committees.

Conclusion

12. The results of this tracking research, in detailed form, will contain findings relevant to many areas of the City Corporation’s work. It will be important for Chief Officers and Departments

to examine the results carefully, so that the necessary conclusions can be drawn and any appropriate recommendations for Committees can be prepared. Chief Officers will consider any appropriate recommendations for their Service Committees and the outcome of this process will be brought to your Committee in due course.

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Agenda Item 7

Committee(s):	Date(s):
Audit and Risk Management	15 October 2013
Subject: City's Cash Financial Statements 2012/13 – Subject to Audit	
Report of: The Chamberlain	Public: For Decision

1. The Draft City's Cash Financial Statements for the year ended 31 March 2013 are set out in Annex 1. They have been prepared for the first time on the basis of United Kingdom Generally Accepted Accounting Practice (UKGAAP). The format and content vary significantly from the previous basis of preparation, which was a modified version of the Charities Statement of Recommended Practice.
2. The consolidated balance sheet is set out on page 10 of the financial statements. It includes those services and activities directly managed by City's Cash, together with those entities that are managed through charities (seven open spaces and Sir Thomas Gresham) and City Re Limited, a wholly owned subsidiary company, whose principal activity is to provide re-insurance protection. Page 11 of the financial statements sets out a 'Direct Services' Balance Sheet, which excludes the consolidated charities and City Re Limited. However, the figures below refer to the consolidated position.
3. The key points are:
 - City's Cash net assets total £1,805m at 31 March 2013, an increase of £114m since the previous year, reflecting the total recognised gains for the year.
 - The total net assets of £1,805m are represented by the following capital and reserves:
 - Operational Capital Reserve (£117m) – Reflecting the balance sheet amount for operational property assets.
 - Heritage Asset Reserve (£182m) – Reflecting the balance sheet amount for heritage assets.
 - Income Generating Fund (£1,444m) – Comprises the asset values of investment properties and managed funds, which generate the income to fund City's Cash activities/services. This fund has increased by £105m during the year as a result of the recognised gains.
 - Working Capital Fund (£62m) – Reflecting net current assets.

- The income and expenditure account on page 9 of the financial statements indicates an operating deficit of £4.1m. However, after taking account of one-off receipts for a VAT refund and profits on the sale of fixed assets, there is an overall surplus of £5.3m (2011/12 - £11.1m).
 - The external auditors' opinion will now confirm that the statements give a 'true and fair view' of the state of City's Cash, whereas the opinion on the statements prepared on the old basis up to 2011/12 was a somewhat limited confirmation that the statements have been properly prepared in accordance with the stated accounting policies.
4. Deloitte's management letter is attached at Annex 2. Subject to concluding satisfactorily on a number of outstanding items, including the views of the Audit Panel, Deloitte intend to give an unqualified opinion on the financial statements. Representatives from Deloitte will be in attendance at the Audit and Risk Management Committee to present the company's management letter.

Recommendations

5. The Audit and Risk Management Committee is recommended to:-
- consider the contents of Deloitte's management letter; and
 - delegate to the Town Clerk, in consultation with the Chairman and Deputy Chairman, authority to:
 - approve the final audited version of the financial statements; and
 - recommend approval of the financial statements to the Finance Committee.

Caroline Al-Beyerty
Financial Services Director

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Annexes

1. City's Cash Financial Statements
2. Deloitte's City's Cash Management Letter

CITY'S CASH
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 MARCH 2013

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Annual Report

1. Reference and Administrative Details

City's Cash is a fund of the City of London Corporation that is not governed by any statute or regulation.

<i>Registered Address</i>	Guildhall, London, EC2P 2EJ
<i>Chief Executive</i>	The Town Clerk of the City of London
<i>Treasurer</i>	The Chamberlain of London
<i>Solicitor</i>	The Comptroller and City Solicitor
<i>Bank</i>	Lloyds TSB Bank plc
<i>Discretionary Fund Managers</i>	Artemis Investment Management; GMO (UK) Ltd; LSV Asset Management; and Ruffer LLP.
<i>Chartered Accountants and Statutory Auditor</i>	Deloitte LLP, Chartered Accountants and Statutory Auditor.

2. Origin

The existence of City's Cash can be traced back to the fifteenth century and it has built up from a combination of properties, land, bequests and transfers under statute since that time. The sites are now managed as a property portfolio and the rents received from the present day buildings, together with investment income from funds largely managed by fund managers, form a large proportion of the income of City's Cash.

City's Cash is not governed by any statutes or regulations and there is no statutory requirement to publish the City's Cash annual report and financial statements. However, most of the components are already within the public domain in some form including the 'City's Cash Overview' published last year. This annual report and financial statements brings these components together and provides transparency on the work of the City of London Corporation.

The financial statements have been prepared on the basis of United Kingdom Generally Accepted Accounting Practice (UK GAAP). The format and content vary significantly from the previous basis of preparation. Given the substantial nature of the changes and the fact that the 2012/13 financial statements are the first to show the complete financial picture for City's Cash, a detailed restatement note would not be meaningful to readers.

3. Other City of London Corporation Funds

This annual report and the financial statements only cover City's Cash: this is one of three funds from which the City Corporation pays for its services. The others are City Fund and Bridge House Estates.

City Fund covers our activities as a local authority, police authority, and port health authority. The financial statements are published separately.

Bridge House Estates is a registered charity. It was originally set up from bridge taxes, rent and private bequests to deal with the upkeep of London Bridge. The charity now funds the maintenance of Tower, London, Southwark, Millennium and Blackfriars Bridges. As the funds have been managed effectively over the centuries the fund now also helps charitable causes across London through the City Bridge Trust with grants amounting to some £15m every year. The annual report and financial statements for this fund are also published separately including a list of grants awarded.

4. Activities of City's Cash

Net income from investments was £51.5m for the year ending 31 March 2013 (gross investment income of £73.1m, less investment management costs of £21.6m) and this allows the City Corporation to provide services that:

- are of national benefit through its core objective to promote UK-based financial services, and related professional services, at home and abroad; and
- are of importance to Greater London and its environs as well as to the City itself, for example, numerous green spaces, wholesale markets providing fish (Billingsgate) and meat (Smithfield), schools (City of London School, City of London School for Girls, City of London Freeman's School and the Guildhall School of Music and Drama), and work in surrounding boroughs supporting education, training and employment opportunities.

Education

Gross Expenditure £61.3m, Gross Income £51.4m, Net Expenditure £9.9m

The City Corporation maintains three fee paying schools – City of London School, City of London School for Girls (both in the Square Mile), and the City of London Freeman's School (in Surrey). They regularly feature among the UK's top performing schools. In each of these institutions, the City provides scholarships and academic bursaries, including match funding monies raised externally by the schools, to support able students from disadvantaged backgrounds. Over 300 students currently receive support.

The Guildhall School of Music & Drama is owned by the City Corporation. It is an internationally-renowned conservatoire; based in the Barbican, it has over 800 full-time music and drama students and is regulated by the Higher Education Funding Council for England in-line with other higher education intuitions.

Markets

Gross Expenditure £13.6m, Gross Income £9.3m, Net Expenditure £4.3m

The City Corporation runs three wholesale food markets, of which two, Billingsgate and Smithfield are funded by City's Cash and New Spitalfields by the City Fund. Market tenants pay rent and service charges, which are calculated on a commercial basis. These charges cover the costs of operation, administration and those repairs which are attributable to the tenants. Billingsgate allows buyers to choose from the largest selection of fish in the UK, with an annual turnover of some 22,000 tonnes. Meat has been bought and sold at Smithfield for over 800 years; it's magnificent Grade II listed surroundings see around 120,000 tonnes pass through each year.

Open Spaces

Gross Expenditure £21.0m, Gross Income £4.7m, Net Expenditure £16.3m

The City Corporation looks after almost 11,000 acres of open spaces across London and beyond, including Hampstead Heath and Epping Forest. Some of the sites have been owned and managed since as far back as 1870, protecting them from development and preserving them as a natural resource. They include important wildlife habitats, Sites of Special Scientific Interest, National Nature Reserves and outdoor space for sport, recreation and enjoyment for the public. Annual visits to the open spaces are estimated at 22.5 million.

City Representation

Gross Expenditure £11.4m, Gross Income £0.7m, Net Expenditure £10.7m

This expenditure supports the City Corporation's core objective to promote UK-based financial services, and related professional services, at home and abroad. The Lord Mayor's overseas visits programme, amounting to around 100 days abroad each year, fosters trade and makes links at the highest levels of government and industry. The Chairman of the Policy and Resources Committee also visits a number of major global financial centres each year, including New York, Beijing and Mumbai. High profile government and industry delegations are welcomed to Mansion House and Guildhall, often on behalf of the UK government. Events hosted range from small receptions to major national occasions, such as State or Guest of Government visits. The City's diplomatic relationships are also strengthened through the London Diplomatic Corps.

Mansion House is the official residence of the Lord Mayor as the head of the City Corporation and the base for Mayoral activities. City's Cash funds official receptions, banquets, meetings and general hospitality carried out by the City Corporation (as well as the overall running costs of Mansion House and the team based there).

Other important responsibilities include: support for the City Corporation's many and varied civic activities; maintaining the Mayoralty's close ties with livery companies and supporting corporate social responsibility and charitable organisations. The Sheriffs support Lord Mayors during their year of office and Her Majesty's Judges sitting at the Central Criminal Court.

The Remembrancer is charged with maintaining and enhancing the City's status and ensuring that its established rights are protected. In the contemporary context the work of the Parliamentary Team encompasses day to day contact with officials in Government departments responsible for developing government policy, the drafting and promotion of legislation and responsibility for relations with both Houses of Parliament and their committees. The work also includes briefings for debates in which the City Corporation or its stakeholders in the City have an interest. The Office monitors the activities of the GLA and its associated bodies and their effect on the City.

The Remembrancer's Office also organises much of the hospitality referred to above including responsibility for the Lord Mayor's Banquet and elements of the Lord Mayor's Day at Guildhall and the Royal Courts of Justice.

Income is generated from lettings at the Mansion House and charges by the Remembrancer to other City Corporation funds for parliamentary work.

Economic Development

Gross Expenditure £4.2m, Gross Income £0.5m, Net Expenditure £3.7m

Economic development work is dedicated to supporting and promoting the City's competitiveness. One of its main aims is to increase the capacity of the wider London community and especially our neighbouring boroughs. This work ranges from encouraging corporate responsibility in City firms to assisting in regeneration work, education, training, skills development and promoting entrepreneurship. The City Corporation also works to establish the best market conditions in which enterprise and innovation can flourish. The City Corporation's Office in Brussels helps to shape legislation that affects UK business and the City's message is put across to decision makers in Westminster and Whitehall. The City leads business delegations on overseas visits and high level inward visits are hosted by the Lord Mayor and Chairman of the Policy and Resources Committee.

Management and Administration

Gross Expenditure £7.9m, Gross Income £nil, Net Expenditure £7.9m

These costs primarily relate to support provided to Members by both central and service departments including an apportionment of Guildhall Complex premises expenses; City's Cash external audit fees; treasury management; and depreciation charges in respect of the City's Cash share of capital projects relating to the Guildhall Complex, information systems and other corporate priorities.

Grants and Other Activities

Gross Expenditure £4.3m, Gross Income £0.8m, Net Expenditure £3.5m

A number of grants are made from City's Cash each year, usually where organisations have a strong City connection or are involved in a special nationwide activity, including charity and educational activities. The grants can encourage companies to become more involved in their community; assist, support and advise policy makers on health issues affecting the capital; and support organisations that promote our work at home and abroad. In addition grants are made to emergency organisations to assist with the relief of national and international disasters.

The City Corporation owns and maintains the Monument. This 202ft high building attracts over 200,000 visitors a year, braving its 311 steps to enjoy breath taking views of the City and beyond. It was built in 1671-7 and was designed by Sir Christopher Wren and Robert Hooke to commemorate the Great Fire of London.

5. Governance Arrangements

City's Cash is managed by committees of the City of London Corporation, membership of which is drawn from the Court of Aldermen and the Court of Common Council. Members of the Court of Aldermen and Court of Common Council are elected by the electorate of the City of London. In determining appointments to committees, the Court of Aldermen and Court of Common Council will take into consideration any particular expertise and knowledge of the Aldermen and Members.

The decision making processes and financial stewardship of the City of London Corporation are set out in Standing Orders and Financial Regulations respectively. The Standing Orders and Financial Regulations are available on the City Corporation's website at www.cityoflondon.gov.uk.

The Audit and Risk Management Committee oversees the City of London Corporation's systems of internal control and makes recommendations to the Finance Committee relating to the approval of the Financial Statements. The Committee also oversees the City Corporation's risk management strategy, anti-fraud and corruption arrangements, to ensure that the organisation's assurance framework properly reflects the risk environment.

The risk management strategy includes the preservation of City's Cash assets, the enhancement of productivity for service users and members of the public and the protection of its employees.

An Audit Panel of senior representatives from medium to large audit firms reviews the processes adopted by the incumbent auditor and provides independent confirmation that the audit has been conducted in accordance with applicable law and International Standards on Auditing (UK and Ireland).

A Risk Management Group is in place to ensure that risk management policies are applied, that there is an on-going review of risk management activity, and that appropriate advice and support is provided to Members and officers.

The City of London Corporation has approved a strategic risk register for all of its activities. This register helps to formalise existing processes and procedures and enables the City of London Corporation to further embed risk management practices throughout the organisation.

6. Financial Review

As set out in the table below the Consolidated Income and Expenditure Account records a surplus for the year of £4.6m (2011/12: £9.6m) on a turnover of £140.5m (2011/12: £142.9m). However, this surplus is after benefitting from several one-off receipts, particularly £5.4m from a VAT refund and £4.0m profit on disposal of assets. Without one-off receipts the underlying position was a deficit of £4.8m (2011/12: surplus of £5.9m).

Income and Expenditure for the year ended 31 March 2013:

	2013	2013	2013	2012	2012	2012
	Income	Expend	Net	Income	Expend	Net
		- iture	income		- iture	income
			 / (cost)			 / (cost)
	£m	£m	£m	£m	£m	£m
Service / activity						
Investments	73.1	21.6	51.5	77.8	17.0	60.8
Education	51.4	61.3	(9.9)	51.2	61.9	(10.7)
Markets	9.3	13.6	(4.3)	8.9	11.3	(2.4)
Open Spaces	4.7	21.0	(16.3)	3.1	21.2	(18.1)
City Representation	0.7	11.4	(10.7)	0.6	11.1	(10.5)
Economic Development	0.5	4.2	(3.7)	0.5	3.7	(3.2)
Management & administration	0.0	7.9	(7.9)	0.0	6.8	(6.8)
Other activities	0.8	4.3	(3.5)	0.8	4.0	(3.2)
	140.5	145.3		142.9	137.0	
Operating (deficit) / surplus			(4.8)			5.9
VAT refund			5.4			-
Profit on Sale of Fixed Assets			4.0			3.1
Funds from charity transfer			0.0			0.6
Surplus before taxation			4.6			9.6
Taxation			-			-
Surplus for the financial year			4.6			9.6

The reduction in income from £142.9m in 2011/12 to £140.5m in 2012/13 is largely due to a fall in investment income as a result of the expiry of several whole building leases partially mitigated by a number of lettings of small units with lower rental income.

Expenditure has increased from £137.0m in 2011/12 to £145.3m in 2012/13 mainly as a result of:

- Investment property costs increasing by £3.9m primarily due to non-routine structural maintenance and other holding costs associated with investment property developments;
- Markets expenditure increasing by £2.3m largely due to one-off costs establishing new working arrangements at Billingsgate Market; and
- Management and administration costs being £1.1m higher mainly due to 2011/12 including a one-off reduction relating to the release of a provision previously made for the revenue cost elements of Guildhall Complex projects.

Recognised but unrealised gains on investment properties and investments with fund managers were £56.7m and £55.5m respectively (2011/12: £81.3m gain and £1.2m loss). When taken

together with the surplus for the year of £4.6m, reserves have increased by £116.8m from £1,711.1m to £1,827.9m (2011/12: increase in reserves of £89.7m).

The City of London Corporation considers City's Cash to be a going concern as set out in note b) of the Statement of Significant Accounting Policies.

7. Explanation of the Financial Statements

The financial statements are not governed by any statutory requirements. They have been prepared in accordance with UKGAAP for the first time and the format and content vary significantly from the previous basis of preparation. Comparative figures for the previous year have been included though a restatement note is not provided as explained in note 22 on page 43.

The City's Cash financial statements consist of the following:

- Consolidated Income and Expenditure Account showing all resources available and all expenditure incurred,
- Consolidated Balance Sheet setting out the assets, liabilities and funds of City's Cash,
- Direct Services Balance Sheet – comprises the assets, liabilities and funds of the services and activities which are provided directly from City's Cash and excludes the separate entities listed below,
- Consolidated Statement of Total Recognised Gains and Losses which includes the profit or loss for the period together with other recognised gains and losses and reconciles to the total movement in reserves,
- Consolidated Cash Flow Statement showing the movement of cash for the year, and
- Notes to the financial statements explaining the accounting policies adopted and explanations of figures contained in the financial statements.

The following separate entities have been consolidated with the main City's Cash accounts:

- Registered charities which are managed and funded by the City Corporation:
 - Ashted Common,
 - Burnham Beeches,
 - Epping Forest,
 - Hampstead Heath,
 - Highgate Wood and Queen's Park Kilburn,
 - West Ham Park,
 - West Wickham Common, Spring Park Wood and Coulsdon and other Commons, and
 - Sir Thomas Gresham Charity.
- City Re Limited - a wholly owned subsidiary company whose principal activity is to provide re-insurance protection. The company was incorporated in Guernsey, registration number 52816, and the Directors' Report and Financial Statements are available at www.cityoflondon.gov.uk. The company allows the City to capture underwriting profits with a known capped downside financial risk of £250,000.

8. Disclosure of Information to Deloitte

At the date of approval of this report, the City of London Corporation confirms that:

- so far as it is aware, there is no relevant audit information of which Deloitte is unaware; and
- it has taken all the steps that it ought to have taken in order to make itself aware of any relevant audit information and to establish that Deloitte are aware of that information.

9. Responsibilities of the City of London Corporation for the Annual Report and Financial Statements

The City of London Corporation is responsible for preparing the Annual Report and Financial Statements for each financial year in accordance with applicable law and regulations. The City of London Corporation has elected to prepare the financial statements in accordance with UKGAAP (United Kingdom Accounting Standards and applicable law). The financial statements would not be approved by the City of London Corporation unless it is satisfied that they give a true and fair view of the state of affairs of the organisation and of the surplus or deficit of the organisation for that period. In preparing these financial statements, the City of London Corporation has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and accounting estimates that are reasonable and prudent;
- stated whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepared the financial statements on the going concern basis.

The City of London Corporation is responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the organisation and enable it to ensure that the financial statements comply with applicable law and regulations. It is also responsible for safeguarding the assets of the organisation and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The City of London Corporation is responsible for the maintenance and integrity of the corporate and financial information included in its website.

Adoption of the Annual Report and Financial Statements

At a meeting of the Finance Committee held at Guildhall on 19 November 2013, the financial statements of City's Cash were approved on behalf of the Court of Common Council.

Roger A. H. Chadwick
Chairman of Finance Committee
Guildhall, London.
19 November 2013

Raymond Michael Catt
Deputy Chairman of Finance Committee
Guildhall, London.
19 November 2013

Independent Auditor's Report to the City of London Corporation

We have audited the non-statutory financial statements of that portion of the City of London Corporation called City's Cash for the year ended 31 March 2013 which comprise the Consolidated Income and Expenditure Account, Consolidated Balance Sheet, Direct Services Balance Sheet, Consolidated Statement of Total Recognised Gains and Losses, Consolidated Cash Flow Statement, the Statement of accounting policies and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the City of London Corporation in accordance with our engagement letter dated 11 June 2013 and solely for the purpose of showing the results of City's Cash stewardship of the resources entrusted to it. Our audit work has been undertaken so that we might state to the City of London Corporation those matters we are required to state to them in an independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporation and auditor

As explained more fully in the Responsibilities of the City of London Corporation Statement, the City of London Corporation is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the Corporation's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the Corporation's affairs as at 31 March 2013 and of the group's surplus for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

19 November 2013

Heather Bygrave (Senior statutory auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

St. Albans, United Kingdom

Report of the Audit Review Panel to the Right Honourable the Lord Mayor, Aldermen and Livery of the several Companies of the City of London in Common Hall assembled

We, whose names are hereunto subscribed, the Audit Review Panel of the Chamberlain's and Bridgemasters' Accounts, elected by the Livery of London in Common Hall assembled on 24 June 2011, 25 June 2012 and 24 June 2013 pursuant to Act 11, George 1, Cap 18, an Act for regulating elections within the City of London, etc., do report as follows:

We have reviewed the processes adopted by Deloitte LLP for the audit of City's Cash for the period from 1 April 2012 to 31 March 2013.

In our view the audit of the financial statements has been conducted in accordance with auditing procedures as stated on page 10.

This report is made solely to the above named addressees. Our work has been undertaken to enable us to make this report and for no other purpose.

S. Barnsdall

N. Bennett

A. de Lacey

J. Griffin

W. Owen

The Deloitte LLP Engagement Partner, Heather Bygrave, is also a member of the Audit Review Panel. However, as the role of the Panel is to provide independent confirmation that the processes adopted by Deloitte LLP have been conducted in accordance with auditing procedures, it is not appropriate for Heather Bygrave to sign the report.

Consolidated Income and Expenditure Account

For the year ended 31 March 2013

	Notes	2013 £m	2012 £m
Income			
Investment Income - Managed Funds and Property		73.1	77.8
Education		51.4	51.2
Markets		9.3	8.9
Open Spaces		4.7	3.1
City Representation		0.7	0.6
Economic Development		0.5	0.5
Other activities		0.8	0.8
Total Income	1	140.5	142.9
Expenditure			
Investments - Management Costs and Property Operating Expenses		21.6	17.0
Education		61.3	61.9
Markets		13.6	11.3
Open Spaces		21.0	21.2
City Representation		11.4	11.1
Economic Development		4.2	3.7
Management and Administration		7.9	6.8
Grants and other activities		4.3	4.0
Total Expenditure	2, 3 and 4	145.3	137.0
Operating (deficit) / surplus		(4.8)	5.9
VAT refund	5	5.4	-
Profit on Sale of Fixed Assets		4.0	3.1
Funds from charity transfer		-	0.6
Surplus before taxation		4.6	9.6
Taxation	6	-	-
Surplus for the financial year		4.6	9.6

All amounts relate to continuing operations.

The notes on pages 16 to 43 form part of these financial statements.

Consolidated Balance Sheet

At 31 March 2013

	Notes	2013 £m	2012 £m
Fixed Assets			
Tangible assets	7	1,074.7	1,010.4
Heritage assets	8	182.2	181.9
Managed investments	9	513.8	458.5
Total Fixed Assets		1,770.7	1,650.8
Current Assets			
Stocks - finished goods	10	0.4	0.3
Debtors	11		
- due within one year		31.9	31.0
- due after one year		0.6	0.0
Managed investments	9	90.2	79.3
Cash at bank and in hand		4.5	10.4
Total Current Assets		127.6	121.0
Creditors: amounts falling due within one year	12	54.9	51.5
Deferred income	13	15.5	9.2
Net Current Assets		57.2	60.3
Net Assets		1,827.9	1,711.1
Capital and Reserves			
Operational Capital Reserve		116.2	107.1
Heritage Assets Reserve		182.2	181.9
Income Generating Fund		1,472.3	1,361.8
Working Capital Fund		57.2	60.3
Total Capital Employed	14	1,827.9	1,711.1

Chris Bilsland
Chamberlain of London
19 November 2013

Direct Services Balance Sheet

At 31 March 2013

	Notes	2013 £m	2012 £m
Fixed Assets			
Tangible assets	7	1,067.5	1,003.7
Heritage assets	8	181.8	181.8
Managed investments	9	485.5	435.4
Investment in subsidiary		0.5	0.5
Total Fixed Assets		1,735.3	1,621.4
Current Assets			
Stocks - finished goods	10	0.4	0.3
Debtors	11		
- due within one year		31.8	31.1
- due after one year		0.6	0.0
Managed investments	9	87.5	74.9
Cash at bank and in hand		1.4	6.7
Total Current Assets		121.7	113.0
Creditors: amounts falling due within one year	12	49.5	46.3
Deferred income	13	10.9	5.1
Net Current Assets		61.3	61.6
Net Assets		1,796.6	1,683.0
Capital and Reserves			
Operational Capital Reserve		109.0	100.3
Heritage Assets Reserve		181.8	181.8
Income Generating Fund		1,444.5	1,339.3
Working Capital Fund		61.3	61.6
Total Capital Employed	14	1,796.6	1,683.0

Direct services represent those services directly provided by the City's Cash fund of the City of London Corporation, rather than by a subsidiary of the Corporation.

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 March 2013

	Notes	2013 £m	2012 £m
Surplus for the financial year		4.6	9.6
Unrealised gains			
Gain on revaluation of investment properties	7	56.7	81.3
Gain / (loss) on revaluation of listed investments	9	55.5	(1.2)
Total unrealised gains		112.2	80.1
Total gains recognised for the year		116.8	89.7

Consolidated Cash Flow Statement

For the year ended 31 March 2013

	Notes	2013 £m	2012 £m
Net cash (outflow) / inflow from operating activities	15	(2.8)	5.8
Returns on investments	16	20.3	20.8
Capital transactions and financial investment	17	(12.5)	4.8
Cash inflow before management of liquid resources		5.0	31.4
Management of liquid resources	18	(10.9)	(26.2)
(Decrease) / increase in cash in the year		(5.9)	5.2

Statement of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are summarised below. They have all been applied consistently throughout the year and to the comparative figures in dealing with items which are considered material in relation to the City's Cash financial statements.

a) **Basis of preparation**

City's Cash is a fund of the City of London Corporation and is not governed by any statutes or regulations. The Corporation has chosen to prepare financial statements on the basis of United Kingdom Generally Accepted Accounting Practice (UK GAAP) for the first time in 2012/13 as described in note 22 on page 43. The financial statements are prepared under the historical cost convention modified to include the revaluation of certain financial assets and liabilities.

b) **Going Concern**

In the opinion of the Corporation, City's Cash is a going concern for the foreseeable future as it annually receives considerable income from its property and non-property investments. This income is considered in the context of a rolling medium term financial forecast to ensure that services are affordable and sustainable. Cash and liquid investments are monitored and maintained at a level to ensure that sufficient resources are available to finance any in-year deficits.

c) **Consolidation**

The City's Cash financial statements consolidate the financial results of the services provided directly, including ceremonial, schools and markets; City Re Ltd. a wholly owned subsidiary whose principal activity is to provide re-insurance protection; trust funds in respect of seven open spaces; and the Sir Thomas Gresham Charity. In the case of charities and trusts, the overriding rationale for consolidation of the trusts is that the City of London Corporation is the Trustee and thereby effectively exercises control over the trusts' activities.

d) **Income and expenditure**

The accounts of City's Cash are maintained on an accruals basis. Consequently, activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular;

- Revenue from the sale of goods is recognised when the significant risks and rewards of ownership are transferred to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to City's Cash.
- Revenue from the provision of services is recognised when the percentage of completion of the transaction can be measured reliably and it is probable that economic benefits or service potential associated with the transaction will flow to City's Cash.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as stocks on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments is accounted for as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

e) **Deferred income**

Grants and contributions relating to fixed assets are treated as deferred income and released to the Consolidated Income and Expenditure Account over the expected useful lives of the assets concerned.

f) **Government Grants and Other Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations for purposes other than capital expenditure (see note e above) are recognised as income at the date that the conditions of entitlement to the grant/contribution are satisfied, when there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Where a grant or contribution has been received but the conditions of entitlement have not been satisfied, the grant or contribution is treated as a receipt in advance.

g) **Tangible fixed assets – operational properties, infrastructure, plant and equipment**

These are assets held and used for the direct delivery of services. In accordance with Financial Reporting Standard 15: Tangible Fixed Assets are carried at historic cost less depreciation on a straight line basis to write off their costs over their estimated useful lives. Depreciation is charged from the year following that of acquisition. Land is not depreciated.

Typical asset lives are as follows:

	Years
Buildings - freehold	10 to 50
Plant and Machinery (including the following components):	
Plant	10 to 20
Furniture and Equipment	3 to 15
Vehicles	3 to 10

Assets costing less than £50,000 are generally charged to the Consolidated Income and Expenditure Account in full in the year of purchase, although assets which cost less than £50,000 individually may be grouped together and capitalised.

h) **Tangible fixed assets – Freehold investment properties**

These are assets held to earn rental income and/or for capital appreciation which are revalued annually to open market value. The value of investment properties as at 1 April 2011, the date of transition to UKGAAP for the City's Cash financial statements, was included in the revaluation reserve as at that date. With effect from 1 April 2011, annual gains or losses on individual properties have been transferred to the property revaluation reserve unless:

- a surplus is reversing a previous impairment loss or revaluation decrease charged to the Consolidated Income and Expenditure Account in which case it is credited to expenditure to the extent of the loss or decrease previously charged there for the same asset; or
- a deficit exceeds the balance on the reserve for the same asset in which case the excess is charged to the Consolidated Income and Expenditure Account.

Depreciation is not provided in respect of freehold investment properties.

i) **Assets under construction**

Payments made to contractors for works completed to date are included within fixed assets pending the asset being recognised as operational. No depreciation is charged on such assets.

j) **Impairments**

An impairment loss arises if the carrying amount of an asset exceeds its recoverable amount. This could be caused by such factors as a significant decline in an asset's value during the period (i.e. more than expected as a result of the passage of time, normal use or general revaluation), evidence of obsolescence or physical damage of an asset, a commitment to undertake a significant reorganisation, or a significant adverse change in the statutory or other regulatory environment.

An annual assessment takes place as to whether there is any indication that property assets may be impaired. An impairment loss is recognised in the property revaluation reserve to the extent that there is a balance on that reserve relating to the specific asset and thereafter to the Consolidated Income and Expenditure Account. The reversal of an impairment loss previously recognised in the Consolidated Income and Expenditure Account will not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Any excess above this carrying amount is treated as a revaluation gain and charged to the property revaluation reserve.

k) **De-recognition**

The carrying amount of an item of property, plant and equipment is derecognised:

- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from de-recognition of an asset is the difference between the net disposal proceeds, if any, and the carrying amount of the asset. The gain or loss arising from de-recognition of an asset is included in the Consolidated Income and Expenditure Account.

l) **Heritage Assets**

Financial Reporting Standard 30: Heritage Assets requires the separate disclosure of such assets on the face of the Balance Sheet. Heritage assets are those with historical, artistic, scientific, technological, geophysical or environmental qualities which are maintained principally for their contribution to knowledge and culture. They are mainly held in trust for future generations. City's Cash heritage assets largely comprise art and sculpture treasures valued, in accordance with Financial Reporting Standard 30, on the basis of available information - including at cost for the acquisition of new assets. The art works are valued on a "rolling" basis using art market intelligence in relation to sales of similar works and indexation and some individual valuations from recognised experts in the field. As heritage assets have indeterminate lives and potentially high residual values, no depreciation is charged. All expenditure on subsequent preservation, conservation, accessibility, etc. is charged directly to the Consolidated Income and Expenditure Account.

m) **Non-property Investments Assets**

FTSE 100 Company investments are valued at the Stock Exchange Trading System (SETS) price at 31 March. Other quoted investments are valued at the middle market price at the close of business on 31 March. Unquoted investments are included at a valuation advised by the Fund Managers. Investment income is accounted for on an accruals basis. Income is recognised for dividends declared in respect of the period to 31 March but which have not yet been received.

The net gain or loss on non-property investments shown in the Consolidated Income and Expenditure Account represents the differences between the historic cost on acquisition or the market value at the start of the year, compared with the market value at the date of disposal or at the end of the year. Gains or losses for the year are transferred to the Investment Revaluation Reserve.

n) **Leases**

Leases are classified as finance leases when substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases.

Finance leases

City's Cash as lessee

City's Cash recognises property, plant and equipment held under finance leases as assets at the commencement of the lease at amounts equal to fair value and, where material, liabilities at the lower of the present value of the minimum lease payments or the fair value of the asset. The asset recognised is matched by a liability for the obligation to pay the lessor. Minimum lease payments are apportioned between a finance charge (interest) and a reduction of the outstanding liability. The finance charge element is allocated to revenue and is calculated so as to produce a constant periodic rate of interest on the remaining balance of the liability. Where liabilities are immaterial, a liability is not recognised and the full rental is charged to revenue over the term of the lease.

City's Cash as lessor

Where material, amounts due from lessees under finance leases are recorded in the balance sheet as a debtor at the amount of the net investment in the lease. The lease payments receivable are apportioned between repayment of the debtor and finance income. The finance income is credited to revenue and calculated so as to give a constant periodic rate of return from the net investment. Where the lease payments receivable are not material, a debtor is not recognised and the full lease payments receivable are credited to revenue.

Operating leases

City's Cash as lessee

Rentals payable are charged to revenue on a straight-line basis even if the payments are not made on such a basis unless another systematic and rational basis is more representative of the benefits received.

City's Cash as lessor

Assets subject to operating leases are included in the Balance Sheet according to the nature of the assets. Rental income from operating leases, excluding charges for services such as insurance and maintenance, are recognised on a straight-line basis over the period of the lease, even if the payments are not received on this basis (e.g. due to lease incentives), unless another systematic and rational basis is more representative of the time pattern in which the benefits derived from the leased asset are diminished.

Lease Incentives

Benefits received and receivable as an incentive to sign a lease are spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

o) Contingent Assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the City. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the debtor (or cash where consideration has been received) and the related revenue are recognised in the financial statements of the period in which the change in circumstances occurs. Where an inflow of economic benefits or service potential is probable (rather than virtually certain) and can be reliably measured, contingent assets are disclosed as notes to the accounts.

p) Contingent Liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the City. Contingent liabilities are assessed continually to determine whether an outflow of resources embodying economic benefits or service potential has become probable. If it becomes probable that an outflow of future economic benefits or service potential will be required for an item previously dealt with as a note to the accounts, a provision is recognised in the financial statements for the period in which the change in probability occurs (except in circumstances where no reliable estimate can be made). Where a contingent liability exists, but a reliable estimate cannot be made, a note is disclosed in the accounts unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

q) **Provisions**

Provisions are made where an event has taken place that gives the City a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the City may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation. Provisions are charged as an expense to the Comprehensive Income and Expenditure Account in the year that the City becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the City settles the obligation.

r) **Cash**

Cash comprises funds repayable to the City without penalty on notice within 24 hours, less cheques and BACS payments issued but not presented.

s) **Stocks of Finished Goods**

Stocks of finished goods are valued at the lower of cost or net realisable value.

t) **Pension Costs**

Non-Teaching Staff

The City of London Corporation operates a funded defined benefit pension scheme for its staff who are employed on activities relating to its three funds (i.e. City Fund, City's Cash and Bridge House Estates). The Pension Fund is the responsibility of the City of London as a whole, which is one employer, and not the responsibility of any of its three funds. City's Cash does not have an exclusive relationship with the City of London Pension Fund. Neither is the portion of the Pension Fund that relates to City of London employee members engaged on City's Cash activities separately identifiable. Consequently, in accordance with the principles of FRS17, the pension arrangements are treated as a defined contribution scheme in the City's Cash accounts. This means that pension costs are accounted for on the basis of contributions payable and the surplus or deficit on the Pension Fund is not included in the City's Cash Balance Sheet.

Pension Costs – Teachers

The payment of pensions to former teachers is the responsibility of Teachers' Pensions (formerly Teachers Pensions Agency). Consequently the teachers' pension fund contributions, together with the employer's contributions, are paid by the City of London to Teachers' Pensions. The Teachers' Pension Scheme is administered by Capita on behalf of the Department for Education as a multi-employer defined benefit scheme. As it is not possible to identify the assets and liabilities at individual employer level, the pension arrangements are treated as a defined contribution scheme in the City's Cash accounts for the purposes of FRS17 with no liability for the future payment of benefits recognised in the Balance Sheet. The pension cost charged to the accounts is the contribution rate set by the Department for Education on the basis of a notional fund.

u) **Statutory Deductions from Pay**

The City of London Corporation accounts centrally for salary and wage deductions. Consequently, the City's Cash accounts treat all sums due to the HMRC as having been paid.

v) **Foreign Currencies**

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the Balance Sheet date and the gains or losses on translation are written on / off to revenue account.

w) **Tax**

The City of London Corporation is a single legal entity and legislation treats it as a local authority for tax purposes. VAT is recovered from HMRC on supplies received, and paid to HMRC on supplies made. All transactions are therefore included without VAT. The City of London Corporation is exempt from income and corporation tax.

City Re Limited, a wholly owned subsidiary of the City of London Corporation in its City's Cash capacity, conforms to the tax requirements for Guernsey companies.

x) **Overheads**

The costs of support service overheads, with the exception of expenditure on corporate and democratic activities, are generally apportioned between all services on the basis of employee time spent or other resources consumed on behalf of user services. Similarly, with the exception of vacant properties, the costs of support service buildings are apportioned on the basis of the office area utilised by each service.

y) **Reserves**

A number of reserves are held as endowment funds or restricted funds received by the City Corporation for specified purposes as set out in note 14.

z) **Critical Judgements in Applying Accounting Policies**

In applying accounting policies the City Corporation has to make certain judgements about complex transactions or those involving uncertainty about future events. Apart from those disclosed in this Statement of Significant Accounting Policies and those involving estimations (see note aa), there are no critical judgements that management has made in the process of applying the City's accounting policies that will have a material effect on the amounts recognised in the financial statements.

aa) **Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty**

The Statement of Accounts contains estimated figures that are based on assumptions made by the City about the future or that are otherwise uncertain. The estimates and associated assumptions are continually reviewed and are based on historical experience and other factors including expectations of future events that are considered to be reasonable under the circumstances. However, because balances cannot be determined with certainty, actual results could be materially different from those estimates. Changes in accounting estimates may be necessary if there are changes in circumstances on which the estimate was based, or as a result of new information or more experience. The estimates and assumptions that have the most significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are those relating to investment properties and heritage assets.

The carrying values of investment properties and heritage assets are primarily dependent on judgements of such variables as the state of the markets, location, condition of the properties/assets, indices etc. Valuation is an inexact science with assessments provided by different surveyors/experts rarely agreeing and with prices subsequently realised diverging from valuations. A reduction in estimated valuations would result in reductions to the Revaluation Reserve and/or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement. For example a 1% reduction in the value of investment properties and heritage assets would result in a reduction to reserves of £9.6m and £1.8m respectively. Conversely, a 1% increase in value would have the opposite effect.

However, the risk of material adjustments is mitigated by using the experience and knowledge of professional chartered surveyors/experts, both in-house staff and external firms. In addition, tests are undertaken to ensure that variations between the valuations of different surveyors, and between valuations and actual prices, are within reasonable tolerances.

Notes to the Financial Statements

1. Income

Investment Income

Investment income relating to property and non-property investments comprises:

	2013 £m	2012 £m
Dividends from managed investments and interest on fund balances	20.3	20.8
Rentals, service charges and dilapidations income	52.8	57.0
Total investment income *	73.1	77.8

The reduction in income from £77.8m to £73.1m is largely due to the expiry of several whole building leases partially mitigated by a number of lettings of small units with lower rental income.

* Rent receivable in 2012/13 in respect of operating leases was £46.2m (2011/12: £48.6m).

Education Income

Includes tuition fees, grants, donations and charges for the use of facilities.

Markets Income

Markets income includes rent and service charges from tenants and charges for the use of facilities.

Open Spaces Income

Income from government grants, other grants and donations and fees for the use of facilities.

2. Expenditure

Investment Management Costs

Expenses relating to property and non-property investments comprise:

	2013 £m	2012 £m
Non-property investments - management fees paid to fund managers	3.7	3.0
Property investment expenses	17.9	14.0
Total Investment Management Costs	21.6	17.0

Property investment expenses comprise staff costs, repairs and maintenance costs, property running costs and professional fees relating to the management of the investment property portfolio. The increase from £17.0m in 2011/12 to £21.6m in 2012/13 primarily relates to one-off structural maintenance and holding costs associated with investment property developments and increased non-property fund managers' fees which can vary each year depending on performance of both annual income and investment gains.

Markets

Expenditure has increased from £11.3m to £13.6m largely as a result of one-off costs establishing new working arrangements at Billingsgate Market.

Management and Administration

The increase from £6.8m to £7.9m is mainly due to 2011/12 including a one-off reduction relating to the release of a provision previously made for the revenue cost elements of Guildhall Complex projects.

Depreciation

The operating deficit is stated after charging depreciation amounting to £4.8m (2011/12: £4.6m).

Operating Lease Rentals

During the year of account City's Cash spent £0.6m on operating lease rentals in respect of premises (2011/12: £0.6m).

Auditor's remuneration

Remuneration to the external auditor (Deloitte LLP) for audit services relating to the year of account amounted to £139,400 (2011/12: £96,500). The increase is due the audit of the transition to UKGAAP. Other fees payable to Deloitte LLP for non-audit services during the year totalled £227,600 (2011/12: £44,500). This included £212,695 paid to Deloitte Real Estate (DRE), a trading name of Deloitte LLP, to research into the renewal of appropriate lease terms at Smithfield Market and to assist the City Corporation with its negotiations. DRE were originally appointed and commenced research work in 2009, at a time when they were named Drivers Jonas LLP and prior to their being taken over by Deloitte LLP in 2010.

Members expenses

Members do not receive any remuneration from the City of London Corporation for undertaking their duties. However, Members may claim travelling expenses in respect of activities outside the City and receive allowances in accordance with a scale when attending a conference or activity on behalf of the City of London Corporation. These costs totalling £8,600 (2011/12: £5,600) across all of the City's activities were met in full by City's Cash.

3. Staff numbers and costs

Officers employed by the City of London Corporation work on a number of the City of London Corporation's activities. The table below sets out the number of full-time equivalent staff charged directly to City's Cash and their remuneration costs.

The number of employees was:	2013 FTE	2012 FTE
Investment properties	17.6	16.7
Education	600.6	578.3
Markets	98.5	94.0
Open spaces	297.5	322.5
City representation	68.8	72.2
Grants and other activities	9.0	7.9
Total	1,092.0	1,091.6

Their remuneration comprised:	Gross Pay £m	National Insurance £m	Pension Contribution £m	2013 £m	2012 £m
Investment properties	0.4	0.0	0.1	0.5	0.5
Education	29.4	2.4	4.0	35.8	34.1
Markets	2.8	0.3	0.4	3.5	3.5
Open spaces	8.7	0.7	1.3	10.7	10.4
City representation	2.8	0.2	0.4	3.4	3.3
Grants and other activities	0.5	0.1	0.0	0.6	0.6
Total	44.6	3.7	6.2	54.5	52.4

4. Remuneration of senior employees

The number of directly charged staff earning more than £60,000 in bands of £10,000 is set out in table 1 below.

Table 1 - Remuneration in Bands

City's Cash Activities	Band £000	2012/13 Number of Employees	2011/12 Number of Employees
Education	60-69,999	43	45
	70-79,999	16	12
	80-89,999	2	2
	110-119,999	1	1
	120-129,999	2	2
	130-139,999	3	3
Markets	60-69,999	3	3
	90-99,999	1	1
Open Spaces	60-69,999	1	1
	90-99,999	1	1
City Representation	60-69,999	1	1
	70-79,999	2	2
	100-109,999	1	1
	120-129,999	1	1
Grants and other activities	140-149,999	1	1
	150-159,999	1	0
	160-169,999	0	1

Where there are no officers in a band, that band has not been included in the table.

To provide consistency with the disclosure in the City Fund Financial Statements, tables 2 and 3 set out information for 2012/13 and 2011/12 respectively in accordance with Regulation 7 of the Accounts and Audit Regulations 2012.

Note to remuneration for senior employees disclosures

- i) These officers provide services for the City of London Corporation's local authority and non-local authority activities. The remuneration included in tables 2 and 3 above relates to the proportion charged to City's Cash activities. The annualised salary for each of these officers is shown in table 4 below.

Table 4 - Annualised Salaries

Post Title		Annualised Salary 2012/13 £000	Annualised Salary 2011/12 £000
Town Clerk	John Barradell	200	-
Town Clerk	Chris Duffield	225	225
Chamberlain	Chris Bilsland	173	173
Deputy Town Clerk	-	120	120
Director of Culture, Heritage & Libraries	-	104	100
Comptroller & City Solicitor	-	130	142
City Surveyor	-	138	138
Director of Markets & Consumer Protection	-	98	95
Director of Open Spaces	-	92	92

5. VAT refund

Following lengthy consideration of a claim from the City, HMRC agreed that VAT should not have been applicable to certain charges for rent and services. The backdated VAT refund, received in full during 2012/13, amounted to £5.4m for City's Cash.

6. Tax Status

The City of London Corporation is a single legal entity and legislation treats it as a local authority for tax purposes. City Re Limited, a wholly owned subsidiary of the City of London Corporation in its City's Cash capacity, conforms to the tax requirements for Guernsey companies.

7. Tangible fixed assets

Consolidated

	<u>Land and Buildings</u>		Plant and Machinery	Assets Under Construction	Total
	Investment Properties £m	Freehold (a) £m			
Cost / Valuation (c)					
At 1 April 2012	903.3	102.4	16.7	12.5	1,034.9
Additions	6.8	1.7	0.7	11.5	20.7
Revaluations	56.7	-	-	-	56.7
Disposals (b)	(8.3)	0.0	-	-	(8.3)
Transfers	0.0	1.5	0.8	(2.3)	0.0
At 31 March 2013	<u>958.5</u>	<u>105.6</u>	<u>18.2</u>	<u>21.7</u>	<u>1,104.0</u>
Depreciation					
At 1 April 2012	-	(13.0)	(11.5)	-	(24.5)
Charge for the year	-	(3.5)	(1.3)	-	(4.8)
At 31 March 2013	<u>0.0</u>	<u>(16.5)</u>	<u>(12.8)</u>	<u>0.0</u>	<u>(29.3)</u>
Net book value					
At 31 March 2012	903.3	89.4	5.2	12.5	1,010.4
At 31 March 2013	<u>958.5</u>	<u>89.1</u>	<u>5.4</u>	<u>21.7</u>	<u>1,074.7</u>
Leased assets included above:					
Net book value					
At 31 March 2012	1.0	-	-	-	1.0
At 31 March 2013	<u>1.4</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1.4</u>

Direct Services

	<u>Land and Buildings</u>		Plant	Assets	
	Investment	Freehold	and	Under	Total
	Properties	(a)	Machinery	Construction	£m
	£m	£m	£m	£m	£m
Cost / Valuation (c)					
At 1 April 2012	903.3	97.8	16.0	9.9	1,027.0
Additions	6.8	1.2	0.7	11.3	20.0
Revaluations	56.7	-	-	-	56.7
Disposals (b)	(8.3)	-	-	-	(8.3)
Transfers	-	-	-	-	0.0
At 31 March 2013	<u>958.5</u>	<u>99.0</u>	<u>16.7</u>	<u>21.2</u>	<u>1,095.4</u>
Depreciation					
At 1 April 2012	-	(12.0)	(11.3)	-	(23.3)
Charge for the year	-	(3.4)	(1.2)	-	(4.6)
At 31 March 2013	<u>0.0</u>	<u>(15.4)</u>	<u>(12.5)</u>	<u>0.0</u>	<u>(27.9)</u>
Net book value					
At 31 March 2012	<u>903.3</u>	<u>85.8</u>	<u>4.7</u>	<u>9.9</u>	<u>1,003.7</u>
At 31 March 2013	<u>958.5</u>	<u>83.6</u>	<u>4.2</u>	<u>21.2</u>	<u>1,067.5</u>
Leased assets included above:					
Net book value					
At 31 March 2012	<u>1.0</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1.0</u>
At 31 March 2013	<u>1.4</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1.4</u>

* Notes:

- a) Freehold land and buildings includes items acquired since April 2000 on the basis of depreciated historic cost. Consequently some of the significant City's Cash assets (e.g. Mansion House, Guildhall Complex, Schools and Markets) are included at nil cost as they were generally acquired well before April 2000 and their original acquisition costs are no longer available.
- b) Freehold land and buildings are held at depreciated historic cost. During the year a number of assets which were included at nil costs and fully depreciated and with no residual value were disposed of for £2.4m (2011/12: £1.8m). The disposal proceeds have been credited to the income and expenditure account as a profit on the sale of fixed assets.

- c) The City Surveyor of the City of London Corporation, who is a fellow of the Royal Institution of Chartered Surveyors, values investment properties annually as at 31 March at market values determined in accordance with the “RICS Valuation – Professional Standards March 2012 edition” issued by the Royal Institution of Chartered Surveyors. Valuations are also provided by three firms of chartered surveyors - Montagu Evans, Jones Lang Lasalle Ltd and BNP Paribas, external valuers with the externally valued properties representing some 48% of the Estates’ value as at 31 March 2013. As detailed in accounting policies note g, all other tangible fixed assets are valued at historic cost less depreciation on a straight line basis to write off their costs over their estimated useful lives and less any provision for impairment.
- d) Neither consolidated City’s Cash nor Direct Services incurred any finance costs during the year ended 31 March 2013 (2011/12: nil) and no finance costs have been capitalised.

8. Heritage assets

Heritage assets are those with historical, artistic, scientific, technological, geophysical or environmental qualities which are maintained principally for their contribution to knowledge and culture. They are mainly held in trust for future generations.

Arising from its status and history, within its City’s Cash fund, the City holds numerous heritage assets primarily open spaces, art and sculpture, prints, drawings and statues.

The City Corporation looks after almost 11,000 acres of open spaces across London and beyond, including Hampstead Heath and Epping Forest. Some of the sites have been owned and managed since as far back as 1870, protecting them from development and preserving them as a natural resource. They include important wildlife habitats, Sites of Special Scientific Interest, National Nature Reserves and outdoor space for sport, recreation and enjoyment for the public.

The art and sculpture collection is maintained as “a Collection of Art Treasures worthy of the capital” and includes a range of paintings documenting London’s history. In addition, the City owns two heritage property assets, the Monument and Temple Bar, and two copies of the Magna Carta.

For some of the heritage assets the cost of obtaining reliable valuations in order to recognise them on the Balance Sheet outweighs the benefit of such recognition to the users of the financial statements. Furthermore many of the assets are irreplaceable and/or there is often no active market for their sale, for example, valuations are not readily available for the original acquisition of open spaces land and their associated buildings, Monument, Temple Bar or the copies of the Magna Carta.

Nevertheless, the City's art and sculpture treasures, which represent the vast majority of the heritage assets, and recently acquired open space land are recognised following the implementation of UKGAAP for inclusion on the Consolidated Balance Sheet at a value of £182.2m (2011/12: £181.9m) as shown in the table below. The increase of £0.3m in 2012/13 relates to the purchase of further forest land thereby increasing accessible open space for the benefit of the public. Due to policy, budgetary and legal constraints there have been no significant acquisitions or disposals in the last five years.

	Consolidated		Direct Services	
	2013	2012	2013	2012
	£m	£m	£m	£m
Valuation				
At 1 April	181.9	181.8	181.8	181.8
Additions	0.3	0.1	-	-
Disposals	-	-	-	-
At 31 March	182.2	181.9	181.8	181.8
Comprising:				
Art and sculptures (notes a and b)	181.8	181.8	181.8	181.8
Forest land (note c)	0.4	0.1	-	-
	182.2	181.9	181.8	181.8

Notes:

- The art works are valued by the Curator at the Guildhall Art Gallery on a "rolling" basis using art market intelligence in relation to sales of similar works and indexation, insurance requirements and some individual valuations from independent experts;
- Sculptures were valued at replacement cost by independent experts Gurr Johns; and
- Recent additions to forest land are recognised at cost.

All expenditure on preservation and conservation is recognised in the Consolidated Income and Expenditure Account when it is incurred.

Catalogues are maintained for the heritage assets and most of them are available for public viewing. The statues and properties (the Monument and Temple Bar) can be seen and experienced from the public highway, treasures on display at the Guildhall Art Gallery can be visited by anyone free of charge and most of the other assets, sometimes held within restricted areas such as the Mansion House, can be viewed by publicly available organised tours or by appointment.

9. Managed investments

Analysis of movement in managed investments:

	Consolidated		Direct Services	
	2013	2012	2013	2012
	£m	£m	£m	£m
Market value at 1 April	518.0	527.8	492.2	504.7
Additions to investments at costs	135.5	135.4	127.8	125.8
Disposals at market value	(121.8)	(144.0)	(115.7)	(136.3)
Net gain / (loss) on revaluation	55.5	(1.2)	52.0	(2.0)
Market value at 31 March	587.2	518.0	556.3	492.2
Cash held by the fund managers at 31 March	16.8	19.8	16.7	18.1
Total investments at 31 March	604.0	537.8	573.0	510.3

Total investments as at 31 March are analysed between long term and short term investments as follows:

Long term	513.8	458.5	485.5	435.4
Short term	90.2	79.3	87.5	74.9
	604.0	537.8	573.0	510.3
Cost of investments at 31 March	526.6	504.4	498.4	478.7

10. Stocks of Finished Goods

A variety of purchased items are held in stock amounting to £0.4m (2011/12: £0.3m) to ensure responsive delivery of services, mainly relating to those provided at the City's open spaces, schools and ceremonial functions.

11. Debtors

	Consolidated		Direct Services	
	2013 £m	2012 £m	2013 £m	2012 £m
Amounts falling due within one year:				
Prepayments and accrued income	12.3	17.0	12.3	17.0
Sundry debtors (note i)	17.8	10.0	17.7	10.1
Rental debtors	0.1	1.3	0.1	1.3
Accrued interest	1.7	2.7	1.7	2.7
	<u>31.9</u>	<u>31.0</u>	<u>31.8</u>	<u>31.1</u>
Amounts falling due after more than one year:				
Sundry debtors	0.6	-	0.6	-
	<u>0.6</u>	<u>-</u>	<u>0.6</u>	<u>-</u>
	<u>32.5</u>	<u>31.0</u>	<u>32.4</u>	<u>31.1</u>

- i) Sundry debtors as at 31st March 2013 included £5.8m (2011/12: nil) due from the Guildhall School Trust towards the construction costs of the School's new premises at Milton Court.

12. Creditors – amounts falling due within one year

	Consolidated		Direct Services	
	2013 £m	2012 £m	2013 £m	2012 £m
Sundry creditors	35.2	33.6	29.8	28.4
Rental income received in advance	11.6	8.5	11.6	8.5
Other receipts received in advance	7.3	8.4	7.3	8.4
Her Majesty's Revenue and Customs - VAT	0.8	1.0	0.8	1.0
	<u>54.9</u>	<u>51.5</u>	<u>49.5</u>	<u>46.3</u>

13. Deferred income

Capital grants and contributions are treated as deferred income as explained in accounting policies note e). The total sum deferred amounts to £15.5m (2011/12: £9.2m), which largely relates to capital contributions towards education projects amounting to £14.4m (2011/12: £8.0m). Deferred income released to the Consolidated Income and Expenditure Account during the year amounted to £0.3m (2011/12: £0.2m).

14. Reserves

Consolidated	Balance at 1st April £m	Additions £m	Disposals £m	Depreci- ation £m	Net Unrealised Incoming Resources £m	Gains £m	Balance at 31st March £m
Operational Capital	107.1	13.9	-	(4.8)	9.1	-	116.2
Heritage Assets Reserve	181.9	0.3	-	-	0.3	-	182.2
Income Generating Fund							
- Investment Properties	9.8	6.8	-	-	6.8	-	16.6
- Managed Investments	425.1	121.6	(110.3)	-	11.3	-	436.4
- Revaluation Reserves:							
Investment Properties	893.5	-	(8.3)	-	(8.3)	56.7	941.9
Managed Investments	33.4	-	(11.5)	-	(11.5)	55.5	77.4
Income Generating Fund	1,361.8	128.4	(130.1)	0.0	(1.7)	112.2	1,472.3
Working Capital Fund	60.3	-	(3.1)	-	(3.1)	-	57.2
Total Capital and Reserves	1,711.1	142.6	(133.2)	(4.8)	4.6	112.2	1,827.9

Direct Services	Balance at 1st April £m	Additions £m	Disposals £m	Depreci- ation £m	Net Unrealised Incoming Resources £m	Gains £m	Balance at 31st March £m
Operational Capital	100.3	13.2	-	(4.5)	8.7	-	109.0
Heritage Assets Reserve	181.8	-	-	-	0.0	-	181.8
Income Generating Fund							
- Investment Properties	9.8	6.8	-	-	6.8	-	16.6
- Managed Investments	404.4	113.8	(106.8)	-	7.0	-	411.4
- Revaluation Reserves:							
Investment Properties	893.5	-	(8.3)	-	(8.3)	56.7	941.9
Managed Investments	31.6	-	(9.0)	-	(9.0)	52.0	74.6
Income Generating Fund	1,339.3	120.6	(124.1)	0.0	(3.5)	108.7	1,444.5
Working Capital Fund	61.6	-	(0.3)	-	(0.3)	-	61.3
Total Capital and Reserves	1,683.0	133.8	(124.4)	(4.5)	4.9	108.7	1,796.6

As at 31 March 2013 the consolidated capital and reserves include £1.7m (2011/12: £1.8m) for restricted funds and £27.9m (2011/12: £24.7m) for endowment funds. The restricted funds relate to future liabilities in relation to Billingsgate Market, sums donated to the schools for items such as scholarships, and for projects at open spaces. The most significant endowment fund is the Hampstead Heath Trust permanent endowment amounting to £26.8m at 31 March 2013 (2011/12: £23.4m) the purpose of which is to meet a proportion of the maintenance costs of the heath.

15. Reconciliation of operating (deficit) / surplus to operating cash flows

	2013 £m	2012 £m
Operating (deficit) / surplus	(4.8)	5.9
Add back depreciation	4.8	4.6
Less income on managed funds and interest received	(20.3)	(20.8)
VAT refund	5.4	-
Profit on sale of fixed assets	4.0	3.1
Funds from charity transfer	-	0.6
Increase in stocks	(0.1)	-
(Increase) / decrease in debtors	(1.5)	5.1
Increase in creditors	3.4	2.6
Increase in deferred income	6.3	4.7
Net cash (outflow) / inflow from operating activities	(2.8)	5.8

16. Returns on investments

	2013 £m	2012 £m
Investment income from managed funds	17.3	17.4
Interest received	3.0	3.4
Net cash inflow	20.3	20.8

17. Capital transactions and financial investments

	2013 £m	2012 £m
Purchase of tangible fixed assets	(21.0)	(21.9)
Acquisition of long term managed investments	(121.6)	(109.8)
Sale of tangible fixed assets	8.3	1.5
Disposal of long term investments	121.8	135.0
Net cash (outflow) / inflow	(12.5)	4.8

18. Management of liquid resources

	2013 £m	2012 £m
Internally managed cash		
- Money market funds	(3.0)	8.9
- Fixed Term Deposits	(10.9)	(25.5)
	(13.9)	(16.6)
Externally managed cash		
- Liquidity funds	0.3	(6.8)
- Current accounts	2.7	(2.8)
	3.0	(9.6)
Net cash outflow	(10.9)	(26.2)

19. Financial commitments

The following material (in excess of £3m) contractual capital commitments are as follows:

	Consolidated		Direct Services	
	2013	2012	2013	2012
	£m	£m	£m	£m
Contracted for but not provided for				
- finance leases entered into	-	-	-	-
- other	7.0	4.8	7.0	4.8
	7.0	4.8	7.0	4.8

City's Cash has no material commitments under operating leases.

20. Related party transactions

The following disclosures are made in recognition of the principles underlying Financial Reporting Standard 8 concerning related party transactions.

All Members of the Committees governing City's Cash are appointed by the City of London Corporation to act on its behalf. The City of London Corporation also employs all staff. The costs of those staff employed directly on City's Cash activities are allocated to those activities accordingly.

The City of London Corporation provides support services for the activities undertaken by each of its funds. These support services include management, surveying, financial, banking, legal and administrative services. Where possible support service costs are allocated directly to the funds concerned. For those costs that cannot be directly allocated, apportionments are made between the City Corporation's funds on the basis of time spent. Premises costs are apportioned on the basis of areas occupied by services.

With regard to banking services, the City of London Corporation allocates all transactions to City's Cash at cost and credits or charges interest at a commercial rate.

The City of London Corporation also provides the above services to a number of charities. The cost of these services is borne by City's Cash in relation to most of these charities. A list of charities managed by the City of London Corporation is available on request from the Chamberlain.

City's Cash initially bears the full costs of corporate capital projects with the City's other funds, City Fund and Bridge House Estates, reimbursing their shares of expenditure in the years in which costs are accrued.

Transactions are undertaken by City's Cash on a normal commercial basis in compliance with the City's procedures irrespective of any possible interests.

As a matter of policy and procedure, the City of London Corporation ensures that Members and officers do not exercise control over decisions in which they have an interest.

Standing Orders

The City of London has adopted the following Standing Order in relation to declarations of personal and beneficial interests:

“If a matter for decision is under consideration by the Court, or any Committee thereof, in which a Member has a personal interest, he must declare the existence and nature of his interest in accordance with the Code of Conduct.”

Disclosure

Members are required to disclose their interests and these can be viewed online at www.cityoflondon.gov.uk.

Members and Chief Officers have been requested to disclose related party transactions of £10,000 or more, including instances where their close family has made transactions with the City of London.

During 2012/13 the following transactions (rounded to the nearest thousand) were disclosed:

- A Member is a director of TheCityUK which received a grant of £780,000 from City’s Cash and paid City’s Cash £26,000 for rent and services. The same Member is a director of Centre for London which received a grant of £20,000.
- Two Members are governors of Christ’s Hospital which receives £48,000 annually for a ‘presentation’ place to secure the right to present one child per year to enter the school.
- Sixteen Members are also members of the Irish Society which received a grant of £30,000 primarily relating to community projects.
- Two Members are governors of King Edward’s School Witley which received a grant of £363,000 for six full fee bursaries and funding to match money raised from other donors.
- One Member is a trustee of St. Paul’s Chorister Trust to whom the City made a donation of £15,000. The same Member is a Trustee of Guildhall School Trust from whom £48,000 was received for the provision of services.
- One Member is a senior adviser to PWC LLP which was paid £1,307,000 from City’s Cash for non-audit services provided to the City.
- A Chief Officer is a council member of CIPFA which was paid £141,000 for services provided.
- A Chief Officer’s wife is a partner in Speechly Bircham LLP which was paid £25,000 for services provided.
- A Member who is a director of the Chartered Institute for Securities and Investment which paid the City £303,000 for rent and service charges.

- A Member is also a member of London Councils from whom City's Cash received £1,219,000 for works, goods and services and £524,000 for rent and service charges.
- A Member is a tenant of commercial premises for which £23,000 was received in rent and service charges.
- A Member is a director of a company leasing market premises paid £138,000 in rent and service charges to the City.
- Mr N H Wild served as a director of City RE Limited and of the insurance manager, JLT Insurance Management (Guernsey) Limited during the period. Management fees paid in respect of the financial year totalled £49,802.
- Profit commission calculated as 1.5% of City Re Limited's profit before tax in the financial period is payable to the company manager JLT Insurance Management (Guernsey) Limited. An amount of £12,348 is payable as at 31 March 2013.

During 2012/13 there were no significant transactions between City's Cash and the other main funds.

During 2011/12 the following transactions (rounded to the nearest thousand) were disclosed:

- A Chief Officer declared an interest in a not for profit organisation from whom the City received services costing £10,000.
- Grants totalling £1,502,000 were receivable from the Barbican Centre Trust in which one Member declared an interest.
- Four Members declared interests in not for profit organisations to whom the City made contributions. There were four organisations and the total payments were £447,000. These included the 'presentation' place at Christ's Hospital and the bursaries/match funding for King Edward's School Witley as indicated under the 2012/13 section above together with grants of £50,000 and £10,000 to St. Lawrence Jewry and Dr Johnson House Trust respectively.
- Income totalling £974,000 was receivable for the provision of services or premises to a not for profit organisation and to a private company. A different Member declared an interest in each organisation.
- Mr N H Wild served as a director of City RE Limited and of the insurance manager, JLT Insurance Management (Guernsey) Limited during the period. Management fees paid in respect of the financial year totalled £64,071.
- Profit commission calculated as 1.5% of City Re Limited's profit before tax in the financial period is payable to the company manager JLT Insurance Management (Guernsey) Limited. An amount of £15,194 was payable as at 31 March 2012.

Related Party Transaction with City Fund (the City Fund covers the City of London Corporation's activities as a local authority, police authority and port health authority).

During 2011/12 an investment property transaction during the year resulted in a receipt of £2.5m from the City Fund. This involved the restructuring of each fund's interests in the property to maximise value to the City of London as a whole. To ensure the integrity of each fund, this transaction was measured at fair value by the City Surveyor on the basis of external advice from a firm of chartered surveyors. There were no outstanding balances at the year end.

21. Contingent liabilities

The main contractor on a major capital project has submitted claims for time extensions and consequential additional costs. These are being assessed by the Contract Administrator and the Quantity Surveyor; at this stage a best estimate of City Cash's share of the contract cost has been accrued for in the accounts but it is possible that this cost could increase.

The City Corporation is involved in discussions about fund-raising from large businesses for a major project. These discussions include arrangements for a potential underwriting by the City of the balance required to achieve a significant income target.

More detailed disclosures have not been included as they could prejudice seriously the City's position.

22. Restatement

The City's Cash Financial Statements for 2012/13 have been prepared for the first time on the basis of UKGAAP. The format and content vary significantly from the previous basis of preparation. In particular, the balance sheet now includes investment properties, operational assets and heritage assets.

The external auditor's opinion will now confirm that the statements give a 'true and fair view' of the state of City's Cash whereas the previous opinion was a somewhat limited confirmation that the statements have been properly prepared in accordance with the stated accounting policies.

Given the substantial nature of the changes and the fact that the 2012/13 financial statements are the first to show the complete financial picture for City's Cash, a detailed restatement note would not be meaningful to readers.

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The City of London Corporation
City's Cash

Report to the Audit and Risk
Management Committee on the
year ended 31 March 2013 Audit

The Audit and Risk Management Committee
City of London
PO Box 270
Guildhall
London EC2P 2EJ

7 October 2013

Dear Sirs

We have pleasure in setting out in this document our report on City's Cash to the Audit and Risk Management Committee of the City of London for the year ended 31 March 2013, for discussion at the meeting scheduled for 15 October 2013. This report covers the principal matters that have arisen from our audit of City's Cash for the year ended 31 March 2013.

In summary:

- The major issues, which are summarised in the Executive Summary, have now been addressed and our conclusions are set out in our report.
- Our review of the annual report is continuing, however, we have made some initial observations in Section 3 of our report.
- City's Cash implemented United Kingdom Generally Accepted Accounting Practice ("UK GAAP") for the first time this financial year. This was an area of key audit focus due to the complex and technical nature of this exercise, alongside the increased constraints on Officer's time.
- There are a number of judgemental areas to which we draw your attention in our report which you should consider carefully.
- In the absence of unforeseen difficulties, officers and Deloitte expect to meet the agreed audit and financial reporting timetable.

We would like to take this opportunity to thank the Chamberlain, Chris Bilsland, Caroline Al-Beyerty and their team for their assistance and co-operation during the course of our audit work.

Yours faithfully,



Heather Bygrave

Senior Statutory Auditor

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Executive summary

We have pleasure in setting out in this document our report to the Audit and Risk Management Committee on the audit of City's Cash for the year ended 31 March 2013. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2013.

This summary is not intended to be exhaustive but highlights the most significant matters which we would like to bring to your attention. It should, therefore, be read in conjunction with the report and the appendices thereto.

Status	Description	Detail
Completion of the audit		
The status of the audit is as expected at this stage of the timetable	<p>The status of the audit is as expected at this stage of the timetable agreed in our audit plan.</p> <p>Items which remain outstanding at the date of this report include:</p> <ul style="list-style-type: none">• We received a draft of the Balance Sheets and Income and Expenditure Account on 4 September followed by the rest of the financial statements (annual report, accounting policies and notes) on 20 September. We continue to work through these with officers and are finalising our procedures in relation to:<ul style="list-style-type: none">○ Completion of our detailed review of the annual report and disclosures;○ Finalisation of the procedures on the consolidation, reserves and cash flow;○ Review of certain recommendations made to date, e.g. a note on restatement and description of "direct services";• Completion of internal quality review assurance procedures;• Meeting of the Audit Panel;• Review of post balance sheet events; and• Receipt of the signed letter of representation.	n/a
Overall view		
We anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements	<p>On satisfactory completion of the outstanding matters, we anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements.</p> <p>The matters that we have taken into account in forming our overall view are described in the following sections.</p>	n/a

Executive summary (continued)

Status	Description	Detail
● Risk appropriately addressed G	● Risk satisfactorily addressed but with unadjusted errors identified A	● Material unresolved matter R

Significant audit risks

There were no significant issues arising from our review of these audit areas

The audit risks which were communicated to you in our audit plan and the conclusion of our audit work thereon are set out below.

Section 1

Implementation of United Kingdom Generally Accepted Accounting Practice ("UK GAAP")

● G

We have worked closely with officers throughout all stages of the UK GAAP implementation process from planning through to reporting. The key impact of this change to the financial statements includes the recognition of the carrying value of the following assets on the Balance Sheet:

- Investment properties £958.5m (2012: £903.3m);
- Heritage assets £182.2m (2012: £181.9m); and
- Operational assets £116.5m (2012: £106.8m).

In addition to the above, we also considered the implication of the accounting for leases and consolidation. In terms of leases, whilst there will be additional disclosures required around operating leases, the financial impact of finance leases was below de minimis hence no adjustments were made in respect of the accounting for finance leases. For the purposes of consolidation, a new subsidiary, City Re Ltd, is now consolidated within City's Cash.

Our assessment included a review of the implementation process, performing audit procedures to test the transactions, balances and adjustments following the adoption of full UK GAAP and reviewing the financial statements. We are satisfied that the financial statements have been properly prepared in accordance with UK GAAP.

Revaluation of investment properties

● G

We have reviewed the adopted valuations in conjunction with our internal specialists and believe the valuations produced for City's Cash as at 31 March 2011, 2012 and 2013 representing an increase of £87.9m or 11.3% to £903.3m in 2011-12 and £43.7m or 5.0% to £958.5m in 2012-13 are a reasonable reflection of their market value.

Executive summary (continued)

Status	Description	Detail
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Significant audit risks (continued)

There were no significant issues arising from our review of these audit areas

Revenue recognition

We have audited the revenue recognised during the year with a specific focus on the completeness of rental income and service charges. We note that rental income decreased during the year from £54.7 million in 2011-12 to £52.2 million in 2012-13. However, the number of leases increased from 366 leases in 2011-12 to 431 leases in 2012-13. This is primarily attributable to the expiry of whole building leases such as Guildhall House, Talis House and Audit House which generated higher rental income mitigated by the increase in the number of lettings of smaller units with lower rental income. We have not identified any issues with the recognition of revenue.

● G Section 1

Management override of controls

We have focused our work on testing of journals (including the use of computer assisted audit techniques), significant accounting estimates and any unusual transactions, including those with related parties. Our testing did not identify any issues in relation to management override of controls, or the assumptions which have been adopted in determining key accounting judgements.

● G

Other issues

There were no significant issues arising from our review of these audit areas

Major Capital Project

We consider that the amounts accrued for in the financial statements of City's Cash in relation a major capital project are appropriate.

We are also of the opinion that the contingent liability disclosed in the financial statements is appropriate.

Section 2

Crossrail funding

We have gained appropriate assurance as to why the City does not consider a contingent liability note necessary in relation to potential funding for Crossrail from City's Cash. We have included a specific representation on this.

VAT

The City can recover input tax directly attributable to its exempt business activities where HMRC consider it to be an 'insignificant' proportion (less than 5%) of the total VAT incurred on all goods and services purchased for both business and non-business activities.

Officers of the City have completed the calculation for the 2012-13 VAT partial exemption return which indicates that there is no breach of the 5% threshold.

Executive summary (continued)

Status	Description	Detail
Our observations on the “front half” of your annual report		
Our review of your annual report is still on-going	<p>Overall the annual report provides adequate detail to assist the readers in their understanding of the financial performance.</p> <p>Our review of the annual report is continuing, however, we have made some initial observations in Section 3.</p>	Section 3
Risk management and internal control systems		
We did not identify any significant deficiencies in the financial reporting systems	<p>Our audit findings did not identify any significant deficiencies in the financial reporting systems.</p> <p>Section 4 sets out the risk management and internal control observations arising from our audit procedures.</p>	Section 4
Identified misstatements and disclosure misstatements		
There are no unagreed / unadjusted misstatements or disclosure deficiencies	<p>Audit materiality for City's Cash was £15.0 million and de minimis was £300,000. We have determined audit materiality based on net assets. The quantum has increased from the prior year due to the recognition of the significant asset base as part of the transition to UK GAAP compliance. To provide further context, the prior year restated net assets as at 31 March 2012 following the recognition of all UK GAAP adjustments is £1.7bn compared to the actual reported net assets as at 31 March 2012 of £0.5bn.</p>	Section 5
Significant Representations		
We will request management representations	<p>A copy of the representation letter to be signed on behalf of the City is included at Appendix 3.</p> <p>Non-standard representations have been highlighted.</p>	Appendix 3
Independence		
We confirm we comply with APB Revised Ethical Standards for Auditors	<p>Our reporting requirements in respect of independence matters, including fees, are covered in Section 5.</p>	Section 5

1. Significant audit risks

Implementation of UK GAAP

● G

The key impact to the financial statements as a result of the implementation of UK GAAP is the recognition of the following carrying values of fixed assets on the Balance Sheet:

- **Investment properties £958.5m (2012: £903.3m);**
- **Heritage assets £182.2m (2012: £181.9m); and**
- **Operational assets £116.5m (2012: £106.8m).**

Until the financial year ended 31 March 2012, the City's Cash financial statements were prepared following the general format of the Statement of Recommended Practice Accounting and Reporting by Charities (Revised 2005) but with a number of exceptions that were disclosed within the accounting policies of the financial statements. Our auditor's opinion therefore confirmed that the financial statements were properly prepared in accordance with the accounting policies stated in the notes' rather than confirming that the financial statements 'give a true and fair view'.

In the current year, the City of London Corporation have prepared the City's Cash financial statements in compliance with UK GAAP, and accordingly our audit opinion on the financial statements is on the basis of a true and fair view.

This has been a significant undertaking, and has resulted in a fundamental change in both the presentation of the annual report, and the assets recognised on the balance sheet. The Chamberlain's department has communicated this exercise to the Chief Officers within the City and engaged with the right personnel including short term assistance from two officers who were hired specifically to focus on information gathering for the following key risk areas of the UK GAAP implementation task. UK GAAP has resulted in recognition or a change in the following key areas:

- Investment properties – £958.5m (2012: £903.3m);
- Heritage assets – £182.2m (2012: £181.9m);
- Operational properties – £116.5m (2012: £106.8m);
- Finance and operating leases;
- Consolidation – evaluation of whether certain entities should be consolidated based upon whether control can be exerted (predominantly through the requirement to fund the annual deficits);
- Restatement of comparatives – the comparative figures have been restated and an opening balance sheet as at 1 April 2011 created to enable the restatement of the 2012 Income and Expenditure account; and
- Presentation and disclosure in the financial statements.

Deloitte response

We have been involved in the UK GAAP implementation process from the planning stage through to completion. We focused on up-front planning with officers whereby a considerable amount of audit senior management level time including the audit engagement partner and a technical director was invested in the planning of this major exercise.

We performed detailed audit procedures on key processes, transactions and account balances impacted by the implementation of UK GAAP as summarised below:

- Reviewed the key control activities surrounding officers' UK GAAP implementation process;
- Audited the impact to current period and prior period comparatives including opening balances as at 1 April 2011;
- Performed substantive audit procedures on the initial recognition of fixed assets on the Balance Sheet including investment properties, heritage assets and operational assets. This included an audit of the carrying value and physical verification.

1. Significant audit risks (continued)

Implementation of UK GAAP (continued)

Deloitte response

- Valuations of heritage assets were based on a combination of art market intelligence and indexation, insurance and some individual valuations from recognised experts. Given the age and unique nature of some assets such as the Magna Carta, these could not be valued and are included in the heritage asset disclosure but not within the balance sheet. Operational assets are recognised at cost and depreciated over their estimated useful lives. Given the significance of the investment property portfolio, we have included this as a separate risk;
- Audited officers' assessment of the accounting for operating and finance leases. Whilst there will be additional disclosures required around operating leases, the financial impact of finance leases was below de minimis hence no adjustments were made in respect of the accounting for finance leases;
- Reviewed and concur with officers' assessment of the criteria for consolidation and the determination of the entities to be consolidated. As a result of the consolidation of the non-UK resident subsidiary company, City Re Limited, it is advised that the growth of the City Re business and its profit levels are monitored and the application of the Controlled Foreign Company (CFC) taxation rules be considered for future periods; and
- Our review of the adjustments arising from UK GAAP compliance and disclosures in the financial statements is continuing.

As part of this re-iterative process, we identified a number of items which needed to be reclassified from revenue to capital and vice versa and the resulting depreciation implications. However, given the quantum of these were immaterial and have been adjusted by Officers; we have not included all of such adjustments in Appendix 1.

Accounting standards require that where there is prior year restatement this is clearly disclosed in the financial statements. Whilst normal practice would be to mark each prior year heading "restated" we have agreed with management that a disclosure note in the accounting policies clearly explaining the restatement will suffice. This is because of the purpose of the restatement and potential change in the users of the financial statements.

Following the performance of the procedures above, except for the uncorrected misstatements as noted in Appendix 1, we did not identify any issues as a result of our testing.

1. Significant audit risks (continued)

Revaluation of investment properties



We believe the internal and external valuations produced for City's Cash as at 31 March 2013 are a reasonable reflection of their market value

City's Cash has a substantial portfolio of investment properties which are subject to annual revaluation. However in line with full UK GAAP compliance these are being brought onto the balance sheet for the first time. These properties require the application of specialist valuation assumptions. The current and recent economic volatility has affected property values generally, and City's Cash has recorded significant gains and losses over the last 3 years.

All properties are valued in accordance with the Royal Institution of Chartered Surveyors ("RICS") Appraisal and Valuation Manual ("the Red Book"). In March 2013, 37% by number (45% by value) of City's Cash portfolio by capital value was valued externally by Montagu Evans (compared to 20% in March 2012). The remainder of the portfolio was valued by the City Surveyors' Office.

A summary of the portfolio is shown below:

Year	Market value at 1 April	Additions	Disposals	Revaluations	Market value at 31 March
2011/12	£813.7m	£9.9m	£(1.5)m	£81.2m	£903.3m
2012/13	£903.3m	£6.8m	£(8.3)m	£56.7m	£958.5m

The value of investment properties has increased by £43.7million from 2011-12, representing a like-for-like movement of +5.0%.

Deloitte response

Central London Office Market Commentary

Conditions within the London property market continue to improve. Leasing take-up rose by 2.6m sq ft, boosted by Google's 800,000 sq ft purchase at King's Cross Central. Availability rose by 8% to 17.9m sq ft, which remains at 9% below the long-term average. There is 9.0m sq ft under construction, one-third of which is already pre-let. Prime yields remained stable as investors continued to focus on Central London opportunities.

The Investment Property Databank ("IPD") index reports changes in capital values of various property types. Reported movements in Central London in the year to 31st March 2013 are summarised in the table below, and demonstrate that the performance of the City's Cash estate (like for like movement of 5.0%) is broadly in line with the London property market as City's Cash estate is spread across these 5 locations / property types:

Property Type	Change in Capital Value
City offices	+1.4%
Midtown offices	+4.6%
Inner London offices	+2.8%
City and Mid Town retail	+7.3%
Retail West End	+8.5%

1. Significant audit risks (continued)

Revaluation of investment properties (continued)

Deloitte response

The City's Cash Estate shows capital growth of +5.0% in the year to March 2013 which is in line with or ahead of the indices for London office growth over the same period.

There have been a range of valuation increases across the portfolio for various reasons including improved market conditions since March 2012 for prime assets and value gains derived via the pursuit of active asset management opportunities, which have in many instances, increased capital values.

Certain investments have outperformed IPD and increased in value, due to active asset management by the long leaseholder, a good example of which is demonstrated by 26 – 31 Shoreditch High Street. In this instance the increased underlying hope value for future conversion to residential use has increased the capital value of the ground lease interest by c. 43%.

Work performed:

We have evaluated City's Cash arrangements for updating valuations, including the operation of its rolling programme of reviews and the qualifications, relevant experience and independence of the specialists utilised to carry out the valuations.

We involved valuation specialists from Deloitte as part of the engagement team to assist in our review of the valuation of investment properties in view of the size of this portfolio. We noted that the process followed in preparation of the valuations appears to be reasonable.

We believe the internal and external valuations produced for City's Cash as at 31 March 2013 are a reasonable reflection of their market value, and are correctly recognised in the Annual Report.

1. Significant audit risks (continued)

Revenue recognition



Our testing has not identified any issues with the recognition of revenue

Under International Standard on Auditing 240 (UK and Ireland) there is a presumption that each audit should recognise that potential fraud in revenue recognition is a significant risk. For City's Cash this has been identified as the completeness of rental income and service charges given its large property portfolio.

Rental income decreased during the year from £54.7 million in 2011-12 to £52.2 million in 2012-13. However, the number of leases increased from 366 leases in 2011-12 to 431 leases in 2012-13. This is primarily attributable to the expiry of whole building leases such as Guildhall House, Talis House and Audit House which generated higher rental income mitigated by the increase in the number of lettings of smaller units with lower rental income.

Deloitte response

We have held discussions with officers to refresh our understanding of the process for recording rental income and service charges.

We reviewed the completeness of rental income and service charges given City Cash's large property portfolio by performing the following procedures:

- Substantive analytical procedures have been performed on the investment property income balance with expectations based upon original budget figures which would reflect all leases signed prior to 2012-13;
- We selected all new leases entered into in 2012-13 above our clearly trivial threshold, tracing from original lease documentation through to the general ledger to verify that rental and service charge amounts had been billed in accordance with the terms of the lease and these amounts were accurately recorded in the correct period. We deem our focus on new leases appropriate as we have not identified any history of errors on recognising income for leases that commenced prior to 12/13 and we also expect the existing leases to be accurately taken into account in the budget which was used in our substantive analytical procedures performed as the annual rental terms are stipulated in lease agreements and not subject to change annually; and
- We have also performed detailed testing of the rent free period adjustment made to rental income.

No issues were noted with our testing.

1. Significant audit risks (continued)

Management override of controls

● G

Our testing did not identify any issues with management bias

Under auditing standards the risk of management override is explicitly identified as a non-rebuttable significant risk. Therefore specific procedures are required to evaluate officers' processes for addressing estimation uncertainty, unusual transactions, related party transactions and the use of journals.

Deloitte response

We have focused our work on testing of journals, significant accounting estimates and any unusual transactions, including those with related parties.

We have used computer assisted audit techniques to select our samples for testing of journals covering both manual and automated journals. We placed particular focus on manual journals which exhibit certain key identifying characteristics such as large revenue entries reversed after quarter end, entries with round numbers or recurring ending digits and large income statement entries posted before quarter end to name a few. We did not identify any issues around journals.

Our consideration of key accounting estimates focused on the significant judgements identified separately above as areas of audit risk.

We considered through our detailed planning procedures and substantive procedures whether there were any transactions where the business rationale was not clear. We did not identify any such transactions.

2. Other issues

We identified the following issues in our planning document, in addition to the significant risks detailed in Section 1:

Major Capital Project

● G

We consider that the amounts recognised in the City's Cash financial statements along with the contingent liability disclosed is appropriate

Since practical completion a few years ago on a major capital project there has been intermittent communication from a contractor to substantiate their initial claim for costs incurred. We understand the contractor is currently doing rectification work, and the final account will be reviewed in November.

A consultant quantity surveyor has been engaged to provide an assessment of the final costs, and the City has accrued for the additional expenditure in line with the estimate provided by them. We highlight this area under other issues as final negotiations could have a material impact on the financial statements.

Deloitte response

We have discussed with officers the background and rationale for the amounts recognised in the financial statements of City's Cash as at 31 March 2013.

We corroborated these discussions through examination of supporting documentation.

We consider that the amounts recognised in City's Cash financial statements as an accrual along with the contingent liability disclosed are appropriate.

They will, however, require regular review and reconsideration to ensure that they remain materially correct.

Crossrail funding

● G

City's Cash has an exposure due to potential Crossrail funding

During 2008/09 the City of London Corporation offered to seek voluntary contributions from large businesses subject to the full active support of Government. The target was £150m with City's Cash underwriting the first £50m. This was in addition to the £200m commitment from City Fund.

Officers have informed us that at recent meetings with Government Departments there has not been an expectation of any additional funding. As such, the City does not consider that a contingent liability note in the financial statements is appropriate.

Deloitte response

We have discussed the position with officers and understand that there is no current obligation to fund the £50 million. We will request a specific management representation on the current position.

We recommend that management continue to monitor the situation to ensure that no contribution will be required.

2. Other issues (continued)

VAT

Background

The City can recover input tax directly attributable to its exempt business activities where HMRC consider it to be an 'insignificant' proportion of the total VAT incurred ('insignificant' means that this input tax is less than 5% of the total VAT incurred on all goods and services purchased for both business and non-business activities).

The City is required to undertake a calculation for the VAT year ending 31 March 2013 to confirm that its input tax relating to exempt supplies did not exceed the 5% de minimis limit. The exempt input tax percentage has been calculated at 4.67%.

Officers have confirmed that they are satisfied with the calculation and that they do not expect a breach of the 5% de minimis level; however a number of errors were identified and corrected by the City during preparation of the 2012-13 calculation.

Deloitte response

We have reviewed the City's partial exemption calculation for 2012-13 in conjunction with our internal VAT specialists. The calculation of the 2012-13 VAT partial exemption return shows that the input tax relating to exempt supplies did not exceed the 5% de minimis limit.

We conclude that the methodology applied to the partial exemption calculation for 2012-13 is reasonable in establishing that a breach of the 5% de minimis level has not occurred.

Whilst we consider the calculation to be reasonable, we have not undertaken a detailed line-by-line review of the calculation. However, we have performed a review of the calculation on a sample basis and no errors were noted on the samples tested.

Confirmation that the calculation is accurate is included as a non-standard representation in the management representation letter. In addition, we have also raised the following recommendations.

To assist the City in its VAT compliance and to reduce the potential for errors or a breach of the 5% de minimis level occurring in future years, we recommend the following:

- The procedures for in-year monitoring continue to be developed;
- The development of partial exemption forecasting for future years is explored although it is recognised that the significant and unpredictable nature of some of the City's property transactions could compromise the accuracy of forecasts;
- Continuing to liaise with and instruct finance personnel, to minimise the likelihood of errors in VAT treatment – particularly in relation to income;
- In addition to the Group Accountant and the graduate trainee, one other individual be involved in the preparation and oversight of the City's partial exemption calculations to provide resilience; and
- Subscriptions to VAT technical updates to be maintained for all personnel in the City involved in VAT accounting.

3. Our observations on the “front half” of your annual report

We are required to read the “front half” of your annual report to consider consistency with the financial statements and any apparent misstatements. The following financial reporting presentational and disclosure matters are key areas of focus for bodies such as the Financial Reporting Council and the Department for Business, Innovation and Skills. Whilst these are not regulatory bodies for City’s Cash, we have benchmarked the new UK GAAP financial statements against relevant best practice recommendations. Whilst our review of the accounts is on-going we have summarised our initial observations to these areas:

Risk disclosures

“Boards who retreat behind boilerplate give the impression that they have not themselves understood the risks they face.”

Bill Knight, FRRP Chairman, February 2011

Whilst the governance and management structure surrounding risk management is included in the annual report, this disclosure could be further enhanced by including further details in respect of the following matters:

- focus on strategic risks and the major operational risks inherent in the City;
- specific risk descriptions, providing sufficient information for the reader to understand the potential impact of the risk on City’s Cash; and
- a clear description of the mitigating activities for each risk.

Key performance indicators

“The review of the company’s business must, to the extent necessary for an understanding of the development, performance or position of the company’s business, include analysis using key performance indicators.”

s417 Companies Act 2006

The financial review section summarises the financial performance of City’s Cash during the year and provides an overview of the performance of its investment properties and investments with fund managers which are the main income generating sources to allow City’s Cash to fulfill its objectives and strategy.

Description of the business model

“The directors should include in the annual report an explanation of the basis on which the company generates or preserves value over the longer term.”

Provision C.1.2 of the UK Corporate Governance Code

There is a section detailing the activities of City’s Cash which provides useful background to the readers of the strategy and objectives of the entity. However, this can be further enhanced to provide more clarity over the plans in place to generate or preserve value over the longer term.

Going concern

“The purpose of the going concern assessment and disclosures should be to provide information to stakeholders about these matters and they should be designed to encourage appropriate business behaviours.”

Lord Sharman November 2011

The annual report refers to the notes to the financial statements for details of going concern and provides details of the key reasons City’s Cash remains a going concern for the foreseeable future.

4. Risk management and internal control systems

Our audit approach in relation to internal control was set out in our 'Briefing on audit matters' and our planning report circulated to you in December 2012.

Risk management and control observations

We have not identified any risk management and control observations during the course of our work. We note the emphasis placed on risk by the Audit and Risk Management Committee in the way it conducts its business. We provide below an update on relevant observations made in the prior year:

VAT	
Prior year observation	<p>The City encountered difficulties in completing the VAT partial exemption claim to fit with the audit timetable, due to the death of the highly experienced VAT accountant.</p> <p>The calculation of the finalised claim for 2011-2012 was performed by a contractor and was received late in the audit process. We recommended the City should ensure that the knowledge gained from this temporary role is adequately captured and utilised in planning for future years and the timetable is again revisited.</p>
Current year update	<p>The City has recruited a Group Accountant for VAT, Research, Technical and Projects, and he is rapidly gaining knowledge and experience from the VAT Consultant. In addition, the City has recruited a Graduate Trainee assistant for the Group Accountant to assist on the VAT matters and is also recruiting a Senior Accountant to his team. The City decided to retain the services of the VAT consultant to ensure a smooth handover of duties and the consultant is currently still part of the team. The consultant undertook the Partial Exemption calculation this year, passing on his experience to the Group Accountant along the way. The calculation has been performed in a very precise manner, drawing on last year's experience and advice from PwC. The exempt input tax percentage has been calculated at 4.67%. Officers have confirmed that they are satisfied with the calculation and that they do not expect a breach of the 5% de minimis level.</p> <p>The consultant also proposes to set up simplified procedures so that the Group Accountant can monitor the position on a quarterly basis as accurately as possible, thereby enabling him to advise officers of any concerns he may have at an early stage. However, we appreciate that it is difficult to accurately forecast future periods, given the City's perspective on property issues and management. The City's resilience with regard to VAT matters is thus enhanced this year.</p> <p>Please see page 12 for recommendations.</p> <p>The officers concur with the recommendations set out on page 10, most of which are already being progressed.</p>

4. Risk management and internal control systems (continued)

Approval of journals	
Prior year observation	The City introduced a new system in 2011-12 whereby all journal lines that have a value over £100,000 are retrospectively reviewed by a more senior member of staff. This was introduced following recommendations in previous years, to reduce the risk of errors arising from inappropriate journals going undetected. In the past we also noted that journals can be the means by which an individual might seek to hide fraud or commit fraud through manipulation of reported financial information. We reviewed the authorisation process in 2011-12 as part of our journals testing and no issues were noted.
Current year update	Current year testing of City's Cash journals identified that the authorisation process was put in place.

5. Independence

As part of our obligations under International Standards on Auditing (UK & Ireland) and the Companies Act, we are required to report to you on the matters listed below.

Confirmation	
We confirm we comply with APB Revised Ethical Standards for Auditors	We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.

Non-audit services							
We confirm that our independence is not compromised by our provision of non-audit services	<p>In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the company's policy for the supply of non-audit services or of any apparent breach of that policy.</p> <p>We apply the following safeguards to eliminate identified threats to independence or reduce them to an acceptable level are as follows:</p> <table border="1"> <thead> <tr> <th>Service provided</th> <th>Identified threats to independence</th> <th>Safeguards applied</th> </tr> </thead> <tbody> <tr> <td>Advice provided by Deloitte Real Estate (DRE) in relation to leasing matters</td> <td>Self-review and management threat</td> <td>We have discussed independence issues with officers in the current year. This work is performed by an independent partner and does not form the basis of the valuations recorded in the financial statement. Officers are responsible for the implementation and acceptance of the advice received.</td> </tr> </tbody> </table>	Service provided	Identified threats to independence	Safeguards applied	Advice provided by Deloitte Real Estate (DRE) in relation to leasing matters	Self-review and management threat	We have discussed independence issues with officers in the current year. This work is performed by an independent partner and does not form the basis of the valuations recorded in the financial statement. Officers are responsible for the implementation and acceptance of the advice received.
Service provided	Identified threats to independence	Safeguards applied					
Advice provided by Deloitte Real Estate (DRE) in relation to leasing matters	Self-review and management threat	We have discussed independence issues with officers in the current year. This work is performed by an independent partner and does not form the basis of the valuations recorded in the financial statement. Officers are responsible for the implementation and acceptance of the advice received.					

Fees	
The level of non-audit fees is within appropriate guidelines	An analysis of professional fees earned by Deloitte in the period from 1 April 2012 to 31 March 2013 is included in Appendix 3.

6. Responsibility statement

This report should be read in conjunction with the "Briefing on audit matters" circulated to you in July 2011, and sets out those audit matters of governance interest which came to our attention during the audit. Our audit was not designed to identify all matters that may be relevant to the board and this report is not necessarily a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the City of London Corporation, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.



Deloitte LLP

Chartered Accountants

St Albans

7 October 2013

Appendix 1: Audit adjustments

Uncorrected misstatements

No uncorrected misstatements have been identified up to the date of this report.

Recorded audit adjustments

Officers have adjusted all misstatements identified in excess of our clearly trivial threshold (set at 2% of materiality). We report all individual identified recorded audit adjustments in excess of £300,000 for City's Cash and other identified misstatements in aggregate adjusted by officers in the table below.

		Credit/ (charge) to current year income statement £'000	Increase/ (decrease) in net assets £'000	Increase/ (decrease) total funds £'000	Increase/ (decrease) in turnover £'000
Factual misstatements					
City's Cash					
Recognition of operational asset – Business Management System at Sundial Court	[1]	-	348	348	-

[1] This adjustment relates to the recognition of a capital expenditure as an operational asset.

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements.

There are no significant disclosure misstatements that we consider require consideration by the committee through our work to date. If any disclosure misstatements are identified through the finalisation of our procedures we will communicate these to you separately.

Appendix 2: Independence – fees charged during the year

The professional fees earned by Deloitte in the year ended 31 March 2013 in respect of City's Cash are as follows.

We have not included those fees earned by Deloitte in respect of the Corporation of London Bridge House Estates, the Sundry Trusts and City Fund entities, as these will be separately reported to the Audit and Risk Management Committee:

	Current year £	Prior year £
Audit of City's Cash (including UK GAAP conversion)	133,216	88,216
Total audit	133,216	88,216
Audit related assurance services		
GSMD HEFCE Audit	6,150	6,150
GSMD – US Loans	-	2,180
Other services		
Deloitte Real Estate services*:	227,559	44,500
Total non-audit services	233,709	52,830
Total fees	366,925	141,046

* The Deloitte Real Estate services relate to advise on negotiations and dispute resolution between existing landlords and tenants – e.g. rent reviews, lease renewals, arbitration, etc. These services arose prior to the merger of Drivers Jonas and Deloitte and appropriate procedures have been put in place to safeguard the independence of the audit engagement team.

Appendix 3: Management representation letter

City's Cash

Note: Non-standard representations have been included in points 6 and 13 to 18 and are consistent with the prior year. These are highlighted in yellow for reference. Appendix 1 & 2 are not shown as the information is provided elsewhere within this document.

Deloitte LLP
3 Victoria Square
Victoria Street
St. Albans
Hertfordshire
AL1 3TF

Date: [xx] October 2013

Our Ref: HAB/SRC/LCK

Dear Sirs

The representation letter is provided in connection with your audit of the financial statements of City's Cash and its consolidated financial statements for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of City's Cash and of the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with the applicable accounting framework. We acknowledge as trustees our responsibilities for preparing financial statements for City's Cash and for making accurate representations to you.

We confirm, to the best of our knowledge and belief, the following representations.

Financial statements

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable financial reporting framework which give a true and fair view, as set out in the terms of the audit engagement letter.
2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of FRS8 "Related party disclosures".
4. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
5. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in Appendix 1 to this letter.

Appendix 3: Management representation letter (continued)

6. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to liquidate City's Cash or cease trading as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon City's Cash ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
7. Having considered our income streams and based on management's close monitoring of donations, response rates and appeals for funds we are satisfied that the total value of income as reported is not materially misstated.
8. All grants, donations and other incoming resources, the receipt of which is subject to specific restrictions, terms or conditions, have been notified to you. There have been no breaches of terms or conditions in the application of such incoming resources.
9. All constructive obligations for grants meeting the conditions set out in FRS 12 "Provisions, Contingent Liabilities and Contingent Assets" have been recognised in the financial statements.
10. We have drawn to your attention all correspondence and notes of meetings with regulators, including, any serious incident reports.
11. We consider there to be appropriate controls in place to ensure overseas payments are applied for charitable purposes.
12. City's Cash have satisfactory title to all assets and there are no liens or encumbrances on the assets.
13. Except as disclosed in Note 18 to the City's Cash financial statements, as at 31 March 2013 there were no other significant capital commitments contracted for. We confirm that we have accrued the final payment due on a major capital project based upon an external experts report, and this represents a reliable estimate.
14. We are of the opinion that the property valuations at 31 March 2013, 31 March 2012 and 31 March 2011 are not materially misstated. It is our opinion that the property listing provided by the City of London is complete and includes all properties owned by the City of London. Furthermore, we are not aware of any current disputes regarding ownership of any properties within our current portfolio.
15. We confirm that all heritage assets have been accounted for and disclosed in the financial statements.
16. In our professional opinion, the input tax relating to exempt supplies is not expected to exceed the 5% de minimis limit for the years ended 31 March 2011, 31 March 2012, 31 March 2013 and as such, the City expects to be able to recover any of the input tax relating to exempt supplies.
17. That the split of venture capital investments recognised in City's Cash financial statements, being 35% of the fund held by City's Cash, BHE and the Pension Fund, represents an accurate allocation to City's Cash.
18. We confirm that based upon our current understanding of the situation on Crossrail Funding a contingent liability note is not required.

Appendix 3: Management representation letter (continued)

Information provided

19. We have provided you with:
- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - additional information that you have requested from us for the purpose of the audit; and
 - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
20. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
21. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
22. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
23. We are not aware of any material fraud or suspected fraud that affects the entity or group and involves:
- (i). management;
 - (ii). employees who have significant roles in internal control; or
 - (iii). others where the fraud could have a material effect on the financial statements.
24. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations and contractual agreements whose effects should be considered when preparing financial statements.
25. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.
26. We have disclosed to you the identity of City's Cash related parties and all the related party relationships and transactions of which we are aware.
27. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the applicable financial reporting framework. On the basis of legal advice we have set them out in the attachment with our estimates of their potential effect. No other claims in connection with litigation have been or are expected to be received.
28. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

Appendix 3: Management representation letter (continued)

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of the City of London Corporation

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Agenda Item 8

Committee(s):	Date(s):	Item no.
Audit and Risk Management Committee	15 th October 2013	
Subject: Independent review of Risk Management	Public	
Report of: Chamberlain	For Decision	
<u>Summary</u>		
<p>The Audit and Risk Management Committee agreed a recommendation that a review of the effectiveness of risk management be undertaken through an independent external review.</p>		
<p>The independent review was undertaken by Zurich Municipal over the Summer period with the scope of its work including the review the Risk Management Handbook, Improvement Plan, the Strategic Risk Register and the Departmental Risk Registers. The review also included one-to-one interviews with selected Members, Chief Officers and Managers across the Corporation.</p>		
<p>The report highlights that, since the introduction of a corporate risk management approach, good progress has been made and a sound basis exists for an effective framework. 56 recommendations have been made for the Corporation to consider, although many of these recommendations have already started to be implemented. The report by Zurich Municipal is attached and will be presented by Phil Coley, the author of the report and one of the consultants who undertook the review.</p>		
<p>Recommendations from the Independent review will be considered and agreed actions incorporated in to the Risk Management Improvement Plan following the Audit and Risk Management Committee's consideration. The Chief Officers' Group considered the report on 2nd October 2013.</p>		
<p>A revised management improvement plan will be agreed with the Strategic Risk Management Group meeting on 11th November, before being presented to the Chief Officer's Group on 27th November 2013 and, then, to the Audit and Risk Management Committee on 11th December 2013.</p>		
Recommendations		
To review and comment on the independent review.		

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City of London Corporation: Strategic Risk Review

4th October 2013

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Executive Summary

The City of London has commissioned Zurich Municipal to undertake an external review of its strategic risk management arrangements. Zurich carried out a desktop review of the Risk Management Handbook, Improvement Plan, Strategic and Departmental Risk Registers, conducted a series of one-to-one interviews with key individuals and undertook a benchmarking exercise. Full details of findings and recommendations follow in this report; in summary the main recommendations are split into the following three sections:

Section 1: Desktop Review of Documentation

1.1 Risk Management Handbook

- Introduce aide-memoire or fact sheet for practitioners to complement Handbook.
- Add further detail to responsibilities e.g. *how* the Court of Common Council assumes “overall accountability for risk management.”
- Further define terms e.g. business, strategic and operational risk.
- Clarify risk maturity model including assessment techniques/measurement criteria.
- Review risk scoring matrix impact indicators to ensure that there are no gaps / overlaps
- Identify more two-way processes to encourage open risk communication and identification of departmental issues.

1.2 Risk Improvement Plan

- Identifies need to “set different reporting guidelines for departments taking into account their current arrangements and resources available” – clarify how this aligns with desire for consistency of approach across departments.
- Identifies need to “determine the risk appetite” – need to set some achievable parameters.
- Refers to putting risks into groups of strategic, operational and corporate risks – distinction between the groups needs to be clarified to avoid overlap.
- Refers to a desire to promote and report opportunity risks – definite appetite for opportunity risk management but other processes need to be embedded as a priority.

1.3 Strategic Risk Register

Recommendations for updating specific risks:

- SR 1 Failure to respond to a terrorist attack, SR5 Flooding in the city and SR13 Public Order and Protest focus on ability to respond to a major incident and the controls involve having a robust Business Continuity Plan and Emergency Plan.

Consider bringing these risks together into a single risk 'Ability to respond effectively to a major incident or catastrophe'.

- SR 8 Negative publicity and damage to the City Corporation's reputation – consider adding further detail around causes or the consequences.
- SR 16 Breach of Data Protection Act. Consider revisiting the causes and consequences to include human behaviour, social media and cyber risk etc. and in doing so widen heading to 'Managing Information Governance'.

Further risks for consideration:

- Supply Chain Failure. Increasingly complex procurement and supply chain arrangements.
- Safeguarding. May be relevant in terms of delivery of statutory social care services.
- Business Transformation / Workforce Planning. Resource constraints leading to changes in internal structures and the way that services are delivered.

1.4 Departmental Risk Registers

- Need to ensure all departments understand and embed processes, including the gross and net risk scoring system and gain assurance around the effectiveness of controls and the robustness of identified planned actions.

Section 2: Interview Findings

2.1 Risk Matrix and Risk Appetite: Key Findings

- Corporation will need to review its risk appetite to adapt to the changing risk environment, such as current budget constraints etc.
- Felt that a definitive risk appetite may be difficult to agree corporately.
- Organic view of risk appetite may emerge from the on-going service based reviews.
- Risk matrix scoring mechanisms would benefit from simplification.

2.1.1 Risk Matrix and Risk Appetite: Recommendations

- Senior managers should ensure that innovative and considered risk taking is fostered within key projects.
- Element of risk appetite identification could be tested, against selected corporate priorities and/or risks. Partial/pilot risk appetite exercise could be developed to facilitate this.
- More comprehensive risk appetite exercise could be undertaken later with perception surveys and/or a facilitated exercise.
- Review of the risk matrix and scoring criteria would be beneficial e.g. 4x4 matrix to ensure all practitioners find it easy to apply.

2.2 Consistency of Approach: Key Findings

- Some feeling that a “one-size” approach does not fit all. Counter argument that consistent approach necessary in order to consider and appraise risk in an organisational context.
- Some disparity between some departmental risk registers and strategic risk register e.g. risk scores may have different meanings.
- Officers may not always have skills to identify and grade risks, and may confuse a “risk” with an “issue” or a “symptom”.

2.2.1 Consistency of Approach: Recommendations

- Undertake formal debate around consistency of approach across departments. Would allow for parameters and exceptions to be identified.
- Develop risk management competency assessment and training programme. Consider further risk identification (“blank paper”) exercises.
- Develop simplified risk guide to complement the Handbook.

2.3 Risk Reporting and Escalation: Key Findings

- Differing opinions on whether officers feel enabled to report risk issues, escalate risks etc. Culture of more transparency and openness is being fostered by senior management.
- Concern that Audit & Risk Committee don't have sufficient oversight of / assurance on top departmental risks.
- Could be more consistency and proactivity around horizon scanning.

2.3.1 Reporting and Escalation: Recommendations

- Defined escalation criteria and process should be simple, clear and understood.
- Focus of any risk software introduced should be on supporting and enabling risk management.
- Audit & Risk Management Committee could be briefed on top departmental risks alongside the Strategic Risk Register at periodic intervals.
- Undertake more consistent and robust approach to horizon scanning.
- Introduce formal process for escalating key project risks on to Departmental and Strategic Risk Registers.

2.4 Risk Management Groups: Key Findings

- Felt that risk groups are supporting the process although structure and functions may need to change to continue to support changing processes.

- Core SRMG could have a more strategic focus, with the wider SRMG/ Operational Group considering discussion areas such as processes, systems etc.

2.4.1 Risk Management Groups: Recommendations

- Monitor and review how effectively they support the risk management process.
- Revised Handbook / Strategy should incorporate structure of groups, with roles and reporting lines.
- Consider “critical success factors” within the Groups.

2.5 Reputation Risk: Key Findings

- Agreement that key reputation risk is around making difficult decisions to reduce or cease certain services.

2.5.1 Reputation Risk: Recommendations

- Vital that all changes to service delivery are considered in the context of risk appetite.
- Exercise could be undertaken to identify those risks with the potential for reputational impact.

2.6 Added Value and Dynamism: Key Findings

- General sense that risk management is being done well at strategic level but may be reluctance for long standing risks to be reduced or removed.
- Suggested that risk management not as well embedded within all policies, strategies and other processes.
- Agreement that Chief Officers are responsible for risk management; however approach may differ across departments, with some Chief Officers delegating responsibility for risk identification and mitigation downwards, without getting proper feedback and offering challenge.

2.6.1 Value Add Recommendations

- Undertake refresh of strategic and departmental risk registers.
- Key policies and strategies should contain risk management consideration.
- Include risk management as a standing agenda items on relevant committee and management meetings.
- Undertake assurance mapping exercise to review controls.
- Consider making risk management part of overall performance and competency reviews.
- Undertake a review of partnership and supply chain risks.

3. Benchmarking (using Alarm Risk Maturity Model)

<p>3.1 Leadership and Management</p> <p>Board, Members and senior managers take the lead to ensure that approaches for addressing risk are being developed and implemented.</p>	<p>2 Happening</p>
<p>3.2 Strategy and Policy</p> <p>Risk management strategy and policies drawn up, communicated and being acted upon. Roles and responsibilities are established, and key stakeholders engaged.</p>	<p>2 Happening</p>
<p>3.3 People</p> <p>A core group of people have the skills and knowledge to manage risk effectively and implement the risk management framework. Staff are aware of key risks and responsibilities.</p>	<p>3 Working</p>
<p>3.4 Partnerships, Shared Risk and Resources</p> <p>Risk with partners and suppliers is well managed and across organisational boundaries. Appropriate resources in place to manage risk.</p>	<p>3 Working</p>
<p>3.5 Processes</p> <p>A framework of risk management processes is in place and used to support service delivery. Robust business continuity management system in place.</p>	<p>3 Working</p>
<p>3.6 Risk Handling and Assurance</p> <p>Some evidence that risk management is being effective in key areas. Performance monitoring is being developed. Capability assessed within a formal framework. Level 2-3 is the current assessment.</p>	<p>2 Happening</p>
<p>3.7 Outcomes and Delivery</p> <p>Clear evidence that risk management is supporting the delivery of key outcomes in relevant areas.</p>	<p>3 Working</p>

Introduction

The City of London has commissioned Zurich Municipal to undertake an external review of its strategic risk management arrangements with the following terms of reference:

1. A desktop review of key documents, including the Risk Management Handbook, Improvement Plan, strategic risk register and departmental risk registers
2. Consideration of the risk matrix and current risk appetite in terms of relevance and proportionality
3. Consistency of approach to risk management across the Corporation
4. Review of the arrangements for escalating and reporting risks
5. Review of risk management groups functionality and effectiveness
6. Consideration of reputational risk to the Corporation
7. Perception of the dynamism of risk management within the Corporation and the amount to which it adds value.
8. Benchmarking against peers and best practice

Methodology

An initial scoping meeting was held, and broad terms of reference for the exercise were agreed.

A desktop review of relevant documents was undertaken.

A series of one-to-one interviews were conducted with the following people (in chronological order):

Jeremy Mayhew	Chairman of Audit and Risk Management Committee
Sandeep Dwesar	Chief Operating and Financial Officer, Barbican and GSMD
Ade Adetosoye	Director of Communities and Children's Services
Susan Attard	Deputy Town Clerk
Chris Bilsland	Chamberlain
Margaret Jackson	Policy Performance Officer, Culture, Heritage and Libraries
Suzanne Jones	Business Support Director, Chamberlain's Department
Paul Nagle	Head of Audit, Chamberlain's Department
Sabir Ali	Risk and Assurance Manager, Chamberlain's Department
Kenneth Ludlam	External Member, Audit and Risk Management Committee
Richard Steele	Senior Support Service Officer, Department for Built Environment
David Smith	Director of Markets and Consumer Protection

An interim summary report has been presented for consideration. This full draft report will be presented to the Chief Officer Summit Group on 2nd October 2013.

Overview

The Corporation has recently undertaken a lot of work to improve the risk management framework, by introducing a more corporate approach and seeking to embed risk management into the organisational culture and business processes. Solid efforts have been made towards simplification and consistency of approach, and there is a definite appetite for the identification of gaps, areas of improvements and for tangible steps which will help to demonstrate added value.

There is a high calibre of management and Members within the Corporation, with several recent changes at senior levels. Risk awareness is very high, and Members appear to appraise and challenge risk registers very thoroughly. It is felt that senior managers and Members understand the need to embed robust risk management processes and are willing to embrace necessary changes in order to implement this.

Overall, it is felt that strategic risk is managed well but there is room for improvement across the organisation in terms of processes and embedding. The following report highlights the areas under consideration.

1. Desktop Review of Documentation

1.1 Risk Management Handbook

The Handbook is clearly laid out and is generally written in Plain English, which makes it easy to navigate and understand. As has been suggested during the interviews (below), it may be too comprehensive to provide easy reference for practitioners, and a shorter, more concise aide-memoire or fact sheet to complement the Handbook could be considered. On the whole, it covers the essential topics of risk management.

Roles and responsibilities are listed comprehensively by tier. It may be helpful to include another “layer” to this section, detailing processes behind each tier. For example, *how* the Court of Common Council assumes “overall accountability for risk management”, in terms of what is reported to them, what decisions they are expected to make, etc.

It is stated that procedures within the Handbook relate to business, or operational risk, although it appears to encompass strategic risk also, and it may be worth clarifying the definitions, as strategic risk is clearly mentioned elsewhere within the Handbook.

There is a risk maturity model within the Handbook. This model is a little difficult to interpret from the details given, as the levels are not clearly distinct (Level 3 = Level 2+; Level 4 = Level 3+) and the assessment techniques/measurement criteria are not listed here. It is also unclear when/whether this exercise has been undertaken and what the results were, from the documents reviewed.

The handbook identifies a weighted 5x5 scoring matrix, with clear likelihood and impact descriptors. However, there are some gaps and overlaps within the impact indicators: for example Minor could read £5–10k rather than up to £10k; and Moderate could read £10–100k rather than up to £100k, for clarification. Major identifies sustained loss of £5–10m or short term loss in excess of £1m: there is a gap between the Moderate and Major of £100k – £1m.

There are good links suggested between risk management other departments such as Insurance, Project Management, Health and Safety etc.

The Review and Reporting Framework is well articulated and presented. It may be beneficial to identify more two-way processes, rather than just top-down reporting, to encourage open risk communication and identification of departmental issues.

1.2 Improvement Plan

The Plan has a pragmatic approach and improvement steps are set out in easy to understand language and terminology. Some of the objectives and tasks could benefit from more contextualisation and commentary, to give more meaning and idea of the outcomes. There are a few specific observations:

- The plan identifies “set different reporting guidelines for departments taking into account their current arrangements and resources available”. It is not clear how this supports the stated desire for consistency of approach across departments, or whether adequate resources will be made available within departments.
- “Determine the risk appetite”: it is not clear from the interviews to what extent this is desirable or practicable, and the Corporation will need to set some achievable parameters for risk appetite.
- Risk grouping by strategic, operational and corporate risks: it is not always easy to do this, as there is often overlap between the groups. It would be helpful to identify the direct benefit the Corporation is hoping to achieve with regard to this.
- Promote and report opportunity risks: there is a definite appetite to see more opportunity risk management; although it is felt that there are other processes to embed as a priority.

1.3 Strategic Risk Register

The strategic risk register contains a strategic risk profile overview, guidance notes on likelihood and impact, and summary risk register, which provide an easy reference point. Supporting statements follow, which contain more detail around each risk. Risks are aligned to Strategic Aims and Key Policy Priorities, although detail around these is not evident within the register, and would be a helpful appendix.

The register could benefit from more detail about the consequences/impacts of each risk, in terms of exactly what the event means for the Corporation, should it occur. The Corporation might also consider including action plans around the key risks, with target dates, risk scores, specific actions and owners etc.

Recommendations for updating specific risks:

SR 1 Failure to respond to a terrorist attack, SR5 Flooding in the city and SR13 Public Order and Protest all focus on the Corporation's ability to respond effectively to a major incident and the controls involve having a robust Business Continuity Plan and Emergency Plan which take account of these and other relevant types of incidents. It might therefore be considered appropriate to bring these risks together into a single risk 'Ability to respond effectively to a major incident or catastrophe'. The focus of this joined up risk would be on providing senior managers and Members with assurance that the Corporation has effective plans in place for responding to all relevant types of major incident rather than focussed on three specific types of incident. This would also avoid having lots of separate risks on the risk register for which lines of responsibility and actions required are similar and with the potential for missing opportunities for better joined up working. It would also ensure that there is space on the strategic risk register for other types of key risk which may need to be focussed on more urgently.

SR 8 Negative publicity and damage to the City Corporation's reputation is identified as a risk, without much specific detail around either the causes or the consequences. It may be helpful for the Corporation to undertake a reputational risk assessment exercise, which would scrutinise existing risks in the context of the potential for reputational damage. This would help to highlight those risks with the highest reputational impact.

SR 16 Breach of Data Protection Act is identified. The risks around DPA compliance and information governance as a whole are becoming an increasingly strategic issue across sectors, and the Corporation may wish to consider revisiting the causes and consequences of this risk in more detail, to include factors such as human behaviour, social media and cyber risk etc. In doing so it might widen the description of the risk to "Managing Information Governance" to reflect these factors.

Recent research and experience identifies a number of emerging risks which the Corporation could consider. These include:

- **Supply Chain Failure.** Increasingly complex procurement and supply chain arrangements, including the delivery of services by sub-tier suppliers, are leading to the emergence of this as a strategic risk. Mitigations include improvements to the robustness of procurement arrangements, interdependency risk assessments etc.
- **Safeguarding.** Whilst mitigating controls are usually robust, this is a strategic risk we might expect to see from the perspective of delivery of statutory social care services.
- **Business Transformation / Workforce Planning.** This is a risk area that we are increasingly seeing as resources are becoming more constrained and organisations are significantly changing internal structures and the way that services are delivered requiring effective change management. As part of this a particular focus of this risk for organisations is on ensuring that they have the right people in place, with the right skills in the right areas to deliver the changing services.

1.4 Departmental Risk Register

A small sample of departmental risk registers has been provided for review. It is not clear how fully engaged all departments are in using the same risk management processes and criteria (see Section 3, below). The Corporation would need to ensure that all departments understand and embed the required processes, including the gross and net risk scoring system, and to gain substantial assurance from the effectiveness of controls and the robustness of identified planned actions.

2. Interview Findings

The comments and recommendations within this section are based largely on the information given by the interviewees.

2.1 Risk Matrix and Risk Appetite: Findings

This section focuses on the risk matrix currently used for scoring, and the perceived existing and desired risk appetite within the Corporation.

- There is a consensus opinion that the Corporation is historically risk averse and that this will need to change to adapt to the changing risk environment, such as current budget constraints etc. It is accepted that risk aversion is no longer relevant in today's market and does not support every department's service needs (such as the need to make dynamic risk assessments in safeguarding environments).
- Risk management needs to be proactive and to embrace innovation: a focus on simply stopping threats from being realised can be counter-productive to realising and maximising opportunities.
- There is a view that the risk appetite is improving generally throughout the Corporation and that some areas (e.g. projects) are becoming more innovative and open to calculated/considered risks. Recent changes of senior management and Members are helping to challenge long held beliefs.
- While there is agreement that some form of risk appetite formalisation exercise or statement would be beneficial, it is felt that a definitive appetite may be difficult to agree corporately, due to the nature of the committee structure and organisational complexity generally.
- An organic view of risk appetite may emerge from the on-going service based reviews, but this may not be tangible enough to measure key decisions against.
- It is felt that the risk matrix scoring mechanisms may be unnecessarily complicated and would benefit from some simplification. The Corporation could consider using an alternative matrix such as a 4x4 without the more complex scoring weightings.

2.1.1 Risk Matrix and Risk Appetite Recommendations

- The culture of risk aversion is changing but will take time to fully embed. Senior managers should ensure that innovative and considered risk taking is fostered within key projects.
- Rather than undergoing a lengthy and potentially resource-intensive exercise, an element of risk appetite identification could be tested, against selected corporate priorities and/or risks. A partial/pilot risk appetite exercise could be developed to facilitate this.

- A more comprehensive risk appetite exercise could later be undertaken which is focussed on identifying the organisation's appetite for risk across a number of areas e.g. financial, reputation, HR, legal, health and safety and which leads to the development of statements which define this. This could be achieved with perception surveys and/or a facilitated exercise.
- A review of the risk matrix and scoring criteria would be beneficial, to ensure risks are graded proportionately. Any agreed matrix and criteria should be re-communicated across all departments to ensure they are understood and embedded.
- The Corporation may wish to consider using a simpler form of risk matrix, (for example a 4x4) to ensure all practitioners find it easy to apply.

2.2 Consistency of Approach: Findings

This section seeks to identify whether departments are looking at risks in different ways, and whether a more consistent approach is desirable or practicable.

- Efforts have been made to centralise risk processes over the last one to two years and all departments are now expected to use the same matrix and framework. There is not total assurance that this is case in practice across all departments.
- There is some feeling that a “one-size” approach does not necessarily fit all: the Corporation has many diverse departments with differing business objectives and approaches. There is a counter argument that a consistent approach is necessary in order to consider and appraise risk in an organisational context.
- There is some disparity between some departmental risk registers and the strategic risk register, in that risk scores may have different meanings between the two. For example, the strategic impact of a particular risk may be lower or higher than a departmental one, and vice versa, resulting in a different RAG rating.
- It is suggested that officers may not always have the necessary skills to identify and grade risks, and may confuse a “risk” with an “issue” or a “symptom”.
- Some departments have “professional” risk managers within them (such as the Director of Public Health) while others may not have the same level of experience and expertise, and an unrealistic assumption of ability may exist.

2.2.1 Consistency of Approach: Recommendations

- As part of the overall review of risk management arrangements, the Corporation might benefit from a formal debate around consistency of approach, and its application across departments. This would raise any issues around the need for relative autonomy, and allow the Corporation to establish and communicate parameters and exceptions, so that working practices are clearly understood and agreed.

- We would suggest that a risk management competency assessment and training programme is drawn up, to enable all those involved in the management or administration of risk registers have the confidence and necessary skills in line with corporate requirements. This might initially focus on risk champions / co-ordinators who have specific responsibility for promoting the development of robust risk registers within their departments and for communicating these within the Core Strategic and wider SRMG/Operational Risk Management Groups. This training needs to be interactive and engaging with a focus on how good risk management can benefit their departments and the organisation as a whole.
- There has already been some success with risk identification (“blank paper”) exercises in limited areas. A follow up of this approach across departments would assist to communicate and embed the desired approach.
- Departmental risk practitioners would benefit from a simplified risk guide, or aide-memoire, to complement the Handbook and/or Strategy. This might include simple tips for risk identification, escalation trigger points, key contacts for advice etc.

2.3 Reporting and Escalation: Findings

These questions were around the effectiveness of the governance arrangements for reporting and escalating risks.

- There is some feeling that the escalation processes in general could be improved, in that departmental risks could be elevated more consistently. It is possible that escalation criteria is not widely understood; also that some departments “over-escalate” or wait for SRMG to “spot” risks that need to be escalated.
- The Corporation is considering the use of risk management software, to enable consistent recording and reporting of risks; also to enable an overview strategically and across departments and to allow comments and updates.
- There are differing opinions on whether all officers feel enabled to report risk issues, escalate risks etc. due to differing degrees of knowledge, or level of management control. However, it is felt that a culture of more transparency and openness is being fostered by the new senior management.
- A concern was raised that whilst Audit & Risk Committee regularly reviews key strategic risks, they don’t necessarily have sufficient oversight of / assurance on the top departmental risks to enable to make informed recommendations.
- There could be more consistency and proactivity around horizon scanning.

- Some uncertainty was expressed about the consistency of the risk management approach applied to projects and whether key projects risks are escalated on a consistent basis

2.3.1 Reporting and Escalation: Recommendations

- Any defined escalation criteria and escalation process should be simple, clear, communicated and understood. For example, the criteria for a departmental risk being escalated to the strategic risk register: if it crosses a certain number of departments; incurs a certain cost; has a certain likelihood or impact score etc. This may be the case within the Handbook but is not widely understood at present.
- In the consideration of software, the focus should be on supporting and enabling risk management, rather than the introduction of a new IT system. Experience shows that if users find it much more complex or difficult than the current system (e.g. spreadsheets) there is a danger that it will not be widely used, or that information being entered will be sub-standard.
- The Audit & Risk Management Committee could be briefed on top departmental risks alongside the Strategic Risk Register at periodic intervals. Time constraints would not necessarily permit a full review but would at least give the Committee an oversight of, and assurance on, key risks that are being managed across the organisation. This could only be undertaken once the Corporation is satisfied that departmental risks have been identified and rated using required processes (see 2.2.1 above).
- A more consistent and robust approach to horizon scanning to identify new and emerging threats and opportunities could be considered. This might be incorporated into any new processes such as a new strategy, risk register refresh, department risk identification exercises etc.
- To ensure that project risk management is aligned to other risk and business processes, project managers should be familiar with the organisation's revised risk management processes. There should also be a formal process in place for escalating key project risks on to Departmental and Strategic Risk Registers as required.

2.4 Risk Management Groups: Findings

This section seeks to explore the functionality and effectiveness of the current risk management groups and to identify any changes necessary.

- It is generally felt that the risk groups are supporting the process at the moment, although there is a likelihood that their structure and functions will need to change to continue to support changing processes.

- It is suggested that the Core SRMG could have a more strategic focus, with the wider SRMG/ Operational Group considering discussion areas such as processes, systems etc.

2.4.1 Risk Management Groups: Recommendations

- It may not be necessary to implement any changes to the Groups at present, but continue to monitor and review how effectively they continue to support the risk management process as it develops and progresses.
- The revised Handbook should incorporate a clear structure of risk groups, with roles and reporting lines.
- The Corporation might consider implementing some benchmarking, or “critical success factors” within the Groups, so that their effectiveness can be objectively measured.

2.5 Reputation Risk: Findings

This section examines the issues most likely to cause reputational damage to the Corporation.

- There is agreement that one of the biggest risks to the Corporation’s reputation is around making difficult decisions to reduce or cease certain services. There are two strands to this:
 - The difficulty in making these decisions and reaching agreement
 - The management of expectations (public, Member, staff etc).

2.5.1 Reputation Risk: Recommendations

- It will be vital for the Corporation to ensure that all changes to service delivery are considered in the context of risk appetite, proportionality and that expectations are sensitively and clearly communicated to all key stakeholders.
- As strategic and departmental risk registers are revisited and refreshed, an exercise could be undertaken to identify those risk with the potential for reputational impact. It may be the case at present that some departmental risks have a much higher reputational impact than has previously been considered.

2.6 Added Value and Dynamism: Findings

This section considers whether the risk management process is in general adding value, or whether it is regarded as more of a “tick-box” exercise.

- There is a general sense that risk management is being done well at strategic level, and has definitely improved over the last few years. It is felt that the next significant challenge will be to improve and embed departmentally.

- There may be an historic reluctance for long standing risks to be reduced or removed from the strategic risk register, even though the risk environment and circumstances may have changed. For example, the planning for the 2012 Olympics revealed good mitigations and contingencies around major incidents, but it is still viewed as a significant threat.
- It was suggested during the interviews that risk management is not as well embedded within all policies, strategies and other processes as is desirable.
- There has been an organisational tendency to have a more reactive approach to risk management, whereas a more proactive approach would be now welcomed
- An historic cultural resistance to change may hinder the progress of identified and required improvements. It is suggested that a particular barrier to change may be the Corporation's own inability to be agile and flexible enough to adapt to changing risk environment, market needs, service delivery options etc.
- It is suggested that there may have been some previous complacency and assumption that internal controls are working well. While there is general confidence in the overall probity and governance of the Corporation and acknowledgement that there will always be exceptions, some lessons have been identified from recent incidents. There is a feeling that there could still be some progress to be made in the evidence of systematic assurance.
- There is general agreement that Chief Officers are responsible for risk management; however, there is not necessarily a consensus that they are held fully accountable. The approach may differ across departments, with some Chief Officers delegating the responsibility for risk identification and mitigation downwards, without getting proper feedback and offering challenge.
- There is confidence that risk management is embedded in existing commissioning processes within Communities and Children's Services. Elsewhere, the extensive commissioning of services is a relatively new area for the Corporation, and it is felt that some work may need to be done to ensure that robust risk management is embedded within key partnerships and contracts.

2.6.1 Added Value and Dynamism: Recommendations

- The strategic risk register would probably benefit from a refresh exercise, to ensure it is fresh and relevant, and truly reflects the key areas of strategic risk facing the organisation. This could then be repeated with departmental risk registers, and the process could assist to ensure the risks and processes being used to identify and manage them are in close alignment.
- Key policies and strategies should contain a risk management consideration. Some of these, such as longer-standing ones, could be reviewed to ensure that new risks do

not affect the policy or outcomes. All business plans should be aligned to risk management objectives.

- By embedding risk management as a standing agenda items on relevant committees and management meetings, discussion and debate are encouraged, and a more proactive approach is fostered. This would also help to overcome long-standing resistance to change, as there are more forums for engaging debate and making informed, risk-based decisions.
- The Corporation might benefit from an assurance mapping exercise. This helps to identify areas where more, or fewer, controls may be necessary, and assists the organisation to deploy risk management resources more efficiently. It also helps to reinforce and evidence assurance around existing controls, and to identify control areas which have not previously been considered.
- Roles, responsibilities and accountabilities for risk management could be clarified, as part of the new Strategy. Where officers have accountability, this should be proactively questioned and challenged, and the Corporation might consider making risk management part of overall performance and competency reviews, in terms of officers who have accountability for risk departmentally.
- As the Corporation engages in more procurement and commissioning processes, and enters different partnerships and ways of working, areas of existing good practice should be used as a benchmark. The Corporation may wish to consider undertaking a review of procurement and supply chain risks, to identify existing best practice, also areas for improvement.

3. Benchmarking

This section gives an indication of the City of London’s risk maturity. We have assessed this using an adaptation of the criteria and categories within the Alarm model at Appendix 1, as well as using industry experience. The model measure five levels of risk maturity:

Level 1	Risk management is engaging with the organisation
Level 2	Risk management is happening within the organisation
Level 3	Risk management is working for the organisation
Level 4	Risk management is embedded and integrated within the organisation
Level 5	Risk management is driving the organisation

Against the following seven categories:

- Leadership and Management
- Strategy and Policy
- People
- Partnerships, Shared Risk and Resources
- Processes
- Risk Handling and Assurance
- Outcomes and Delivery

1 Engaging	2 Happening	3 Working	4 Embedded	5 Driving
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3.1 Leadership and Management	2 Happening
Board, Members and senior managers take the lead to ensure that approaches for addressing risk are being developed and implemented.	
It is clear that there is a real appetite for improvement and that the potential value of risk management is understood at the top level. By implementing some of the recommendations within this report, such as reviewing the strategic risk register and formally setting the risk appetite, Level 3 and 4 could easily be achieved.	

<p>3.2 Strategy and Policy</p> <p>Risk management strategy and policies drawn up, communicated and being acted upon. Roles and responsibilities are established, and key stakeholders engaged.</p>	<p>2 Happening</p>
<p>It has been acknowledged that some more work is required to fully embed risk management into all strategy and policy making processes. A Level 4 Embedded and Working could be achieved by completing and communicating the current review and refinement of the risk framework, and by ensuring risk handling is an inherent feature of all strategy and policy making processes.</p>	

<p>3.3 People</p> <p>A core group of people have the skills and knowledge to manage risk effectively and implement the risk management framework. Staff are aware of key risks and responsibilities.</p>	<p>3 Working</p>
<p>The City of London commits good resources to risk management and there is a high standard of risk knowledge and awareness among senior managers and Members. There are indications that the Corporation is becoming less risk averse in the areas of project management and innovation. By implementing a robust, face to face training programme through departments, Level 4 is easily achievable.</p>	

<p>3.4 Partnerships, Shared Risk and Resources</p> <p>Risk with partners and suppliers is well managed and across organisational boundaries. Appropriate resources in place to manage risk.</p>	<p>3 Working</p>
<p>There is some confidence in the governance of commissioned services such as Communities and Children’s Services. If this could be soundly evidenced, and examples of good practice embedded further into all partnerships and other areas of shared risk, a Level 4 could be established.</p>	

<p>3.5 Processes</p> <p>A framework of risk management processes is in place and used to support service delivery. Robust business continuity management system in place.</p>	<p>3 Working</p>
<p>A lot of work has been done to develop a risk framework but it is acknowledged that the process outlined in the Risk Management Handbook needs to be further updated (in line with the recommendations in this report) and more work can be done on ensuring consistent processes are adopted across departments. It is generally felt that risk supports service delivery. To achieve a Level 5, Driving, in this area, the Corporation could consider using a risk-based performance measurement against business success.</p>	

<p>3.6 Risk Handling and Assurance</p> <p>Some evidence that risk management is being effective in key areas. Performance monitoring is being developed. Capability assessed within a formal framework..</p>	<p>2 Happening</p>
<p>Although internal controls are formally audited, there could be improvements to the assurance processes, through a robust assurance mapping exercise. There is not complete confidence in the alignment of risk to performance management: by ensuring that those accountable are measured on risk management as part of regular performance reviews, a Level 3-4 could be achieved.</p>	

<p>3.7 Outcomes and Delivery</p> <p>Clear evidence that risk management is supporting the delivery of key outcomes in relevant areas.</p>	<p>3 Working</p>
<p>All departments are encouraged to maintain risk registers and there are a number of groups, discussion forums and reporting mechanisms, so that risk management is clearly part of the “day job” to some extent. By aligning risk management more closely to business plans, performance reviews and to outcomes, a Level 4-5 is achievable.</p>	

Summary

Clearly the City of London currently manages risk to a good standard, and the on-going review and implementation of the Improvement Plan will assist it further. There are identified recommendations and actions, including some within this report, which will allow the City to achieve measurable Level 4s in most areas; there is no reason why a sustained programme of improvement should not enable consistent Level 4s to 5s across risk management as a whole.

It could be beneficial for the Corporation to establish realistic targets of risk maturity against these, or other criteria, and to identify critical success factors in order to measure progress within six to twelve months.

Conclusion

The City of London Corporation has made good progress over the last two years, since the introduction of a corporate risk management approach, and now has a sound basis on which to build. The risk management knowledge and experience across departments appears to vary, so it is important not to assume a level of knowledge which may not exist. Conversely, it is also advisable to recognise and capitalise on existing good risk management skills, by encouraging debate and communication across departments.

Departmental engagement and communication will be essential to the success of any on-going improvements: Chief Officers and managers will need to see real benefits to their areas of business to remain engaged and proactive. For example, the wider implementation of the recent “blank paper” risk identification exercise would assist departments to identify relevant risks and controls in line with the standards and processes required by the City. This, along with the type of “hands on” training and production of pragmatic aide-memoires and guides suggested, would be of great benefit, and is more likely to maintain dynamism and momentum, and to produce constructive ideas.

Next Steps

This report is submitted for initial consideration and comment. Any required moderations and amendments will be made, before presenting the findings to the Chief Officer Summit Group on October 2nd. Any further changes can then be made before the final version of the report is issued.

This report and the recommendations therein will be owned by the City of London Corporation. Zurich is happy to discuss any further support required around developing required improvements.

Appendix A: Alarm Risk Maturity Model

	Leadership & Management	Strategy & Policy	People	Shared Resources	Processes	Assurance	Outcomes & Delivery
Level 5: Driving	Senior management uses consideration of risk to drive excellence through the business, and good RM is rewarded	RM capability in policy and strategy making helps to drive organisational excellence	The organisation has a good record of innovation and well-managed risk taking. Absence of a blame culture	Clear evidence of improved partnership delivery through RM	RM is well integrated with all key business processes and shown to be a key driver in business success	Considered risk taking part of the organisational culture	RM arrangements clearly acting as a driver for change and linked to plans and planning cycles
Level 4: Embedded and Working	Board and senior managers challenge the risks to the organisation and understand the risk appetite. Management leads RM by example	Risk handling is an inherent feature of policy and strategy making processes.	People are encouraged and supported to take managed risks through innovation. Regular training and clear communication of risk is in place	Sound governance arrangements are established. Partners support one another's RM capability and capacity	A framework of RM processes in place and used to support service delivery. Robust business continuity management in place	Evidence that RM is being effective and useful for the organisation and producing clear benefits. Evidence of innovative risk taking	Very clear evidence of very significantly improved delivery of all relevant outcomes and showing positive and sustained improvement
Level 3: Working	Senior managers take the lead to apply RM thoroughly across the organisation. They own and manage a register of key strategic risks and set the risk appetite	RM principles are reflected in the organisation's strategies and policies. Risk frameworks is reviewed, defined and communicated	Core group of people have the skills and knowledge to manage effectively and implement the RM framework. Staff aware of key risks and responsibilities	Risk with partners and suppliers is well managed and across organisational boundaries.	RM processes used to support key business processes. Early warning indicators and lessons learnt are reported.	Evidence that RM is effective in key areas. Capability assessed within a formal assurance framework and against best practice standards	Clear evidence that RM is supporting delivery of key outcomes in all relevant areas
Level 2: Happening	Board/Senior managers take the lead to ensure that approaches for addressing risk are being developed and implemented	RM strategy and policies drawn up. Roles and responsibilities established, key stakeholder engaged	Suitable guidance is available and a training programme has been implemented to develop risk capability	Approaches for addressing risk with partners are being developed and implemented. Appropriate tools and resources for risk identified	RM processes are being implemented and reported upon in key areas. Continuity arrangements are being developed in key service areas.	Some evidence that RM is being effective. Performance monitoring and assurance reporting being develop.	Limited evidence that RM is being effective in, at least. The most relevant areas
Level 1: Engaging	Management are aware of the need to manage uncertainty and risk and have made resources available to improve	Need for a risk strategy and risk-related policies has been identified and accepted. The RM system may be undocumented	Key people aware of the need to understand risk principles and increase competency in RM techniques	Key people aware of areas of potential risk in partnerships and the need to allocate resources to manage risk	Some stand-alone risk processes have been identified and are being developed.	No clear evidence that RM is being effective	No clear evidence of improved outcomes

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Agenda Item 9

Committee:	Date:
Audit & Risk Management Committee	15th October 2013
Subject: 2014/15 Internal Audit Planning	Public
Report of: Chamberlain	For Information

Summary

The Head of Internal Audit is required by the Public Sector Internal Audit Standard 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.

The purpose of this report is to provide the Committee with an overview and opportunity to comment on the strategic internal audit plan for 2014/15, prior to the development of the more detailed Annual audit plan for 2014/15.

To ensure risk-based audit plans are developed in an effective way, there is a 5 year Strategic Plan which provides the basis for the Annual Audit Plan. This internal audit role is a central element of the City's Corporate Governance framework, as the internal audit work and Head of Internal Audit opinion is a key input to the published Annual Governance Statement and focus for the work of the Audit & Risk Management Committee.

The internal audit function is continually aiming to focus its activities and approach according to the assurance requirements of the City. This has entailed undertaking more strategic reviews, increased focus on VFM and efficiency, and working much closer with senior management, so that its work is more concentrated on those areas where internal audit can provide added value to the organisation. To support this focus, internal audit has responsibility for the corporate risk management support function and supports the efficiency and performance review work of the officer Efficiency Board and member Efficiency & Performance Sub-Committee (EPSC).

Combining the internal audit function and the corporate risk management support role is assisting the City of London in developing a more integrated risk and assurance management approach, with clearer linking of internal audit and other assurance activity to the key strategic and departmental risks faced by senior management. The development of more consistent Departmental Risk Registers, following the roll-out of the Risk Management Handbook, is assisting in the review and development of internal audit plans.

Internal audit is piloting the use of assurance mapping techniques to provide a holistic overview of assurance coverage of key risks and controls. This will assist in focusing internal audit activity, by developing a clearer picture of the scope of other assurance activities, particularly that undertaken by external inspectors or management review activities. It is intended to roll out these exercises to larger Departments in 2014/15.

Following the Chief Officer customer satisfaction review in the Summer, Internal Audit will be sharing and promulgating more widely, thematic risk and control issues arising from routine audit and investigation work. This thematic reporting will be progressed and refined in 2014/15, to become a regular feature of internal audit work.

The indicative allocation of internal audit resources by audit theme and Department is set out in **Appendix 2** of this report. **Appendix 3** provides information on Departmental spend and income with commentary on factors which affect the audit resources allocation. **Appendix 4** provides information on the Audit Risk Assessment Methodology.

Areas of emphasis within internal audit cyclical risk based work are:-

- City of London Procurement Service and PP2P transition
- Financial Management
- Major Projects
- Commissioning, Partnerships and major service contracts
- IS – new contract and performance management arrangements
- HR key processes

Additional work is proposed in the following areas:-

- Information Governance
- Departmental Financial Regularity and Probity checks
- Service-Based Reviews

Members' observations on these areas are sought, as well as suggestions as to other areas of focus that could be considered for risk assessment as part of detailed audit planning process over the next few months.

Internal audit will commence its main annual audit planning process in October, by having detailed discussions with Chief Officers, with view to producing a detailed operational audit plan to present to Chief Officers' Group in January 2014 and seeking Audit & Risk Management Committee approval at the 4th March 2014 meeting. This report sets out the resource availability and proposed deployment of audit resources for the anticipated 3451 days available from the 15.6 FTE internal audit section staff.

Recommendation

The Audit and Risk Management Committee note the report and suggest areas of focus for consideration, as part of the detailed risk assessment and audit planning process over the coming months.

Main Report

The role of internal audit

1. Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. The control environment comprises the systems of governance, risk management and internal control.
2. The Internal Audit section reviews the operations of all services the City provides, and also supplies the internal audit service to the Museum of London and London Councils under a SLA. It does so in accordance with its Terms of Reference which reflect statutory and professional requirements. Implementation of the audit plan helps the City of London maintain "a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk" (Accounts and Audit Regulations 2011). Proper practices are defined in the new Public Sector Internal Audit Standards which is the professional basis for the operation of the Internal Audit section.
3. Internal audit adds value and improves the City's operations by promoting a robust control environment, best practice in governance and risk management as well as making recommendations for improvements in operating efficiencies. To achieve this, the Internal Audit section engages with the City's Corporate and Departmental change programmes, providing expert independent and objective input to emerging issues.

Internal Audit Planning Process

4. The Head of Internal Audit is required by the Public Sector Internal Audit Standard 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.
5. Annually, internal audit conducts a comprehensive risk-based audit planning process to ensure that all areas of the City of London's operations (and external partners, where appropriate) are provided with an appropriate and structured internal audit service to assist in the continuous improvement process.
6. The result of this process is an updated 5 year Audit Strategic Plan 2014-15 which provides the starting basis for the Annual operational audit plan. Whilst many other organisations adopt a 3 year rolling strategic plan, a 5 year plan is still considered most appropriate for the City of London, reflecting a desire for a cyclical coverage of all the main auditable areas of the City's diverse operations.

7. The principles of risk management are applied throughout the planning process in that the allocation of resources to each audit is considered against the assessed likelihood, frequency and impact of individual risks. The internal audit risk assessment methodology as set out in **Appendix 4** was reviewed last year so that it is aligned to the management handbook assessment criteria and takes into account financial materiality, reputational risk, current control effectiveness, whether there have been structural, process or system changes and the risk of loss, fraud or abuse of powers.
8. The Internal audit risk assessment which drives the allocation of resources is undertaken at a detailed system level rather than at departmental level. This is because it is necessary to assess the wide variety of risks and system that exist with each Department to ensure an appropriate coverage. **Appendix 3** provides an analysis of the indicative audit days allocation by Department with details of expenditure, income and staffing budgets along with a brief commentary on the factors which drive the audit coverage in each department, of which the level of expenditure and income is only one factor.
9. Whilst the strategic and annual audit plans are initially compiled using risk to assess the areas needing coverage, Chief Officer views are being sought on the focus and scope of audit activity so planned work is more focused on those areas, where internal audit can provide added value to the organisation.
10. Reference is made to Department risk registers in developing the audit plans. It is now possible to place increased reliance on these risk registers in informing risk assessments for audit planning purposes.
11. Linkages to the Strategic Risk Register will be demonstrated when the detailed annual audit plan is presented in March 2014.
12. External Audit will be consulted on the content of the 2014/15 operational internal audit plan and a number of financial control areas of planned internal audit work are expected to be of particular interest to them in arriving at their own audit opinion on the published financial statements of the City.
13. Resource assumptions are based upon an audit section complement of 15.6 FTEs consisting of one Head of Audit & Risk Management, four Audit Managers, one Risk & Assurance Manager, eight auditors and two fraud investigators. The assumptions behind this resource analysis are set out in **Appendix 1**. A reasonable level of staff turnover is now being experienced by the internal audit section, with 2 senior auditors and one senior auditor expected to retire in the current calendar year. Succession planning particularly for specialist IS and Contract and procurement auditors remains a key consideration. Should vacancies arise then, it is intended to use the allocated internal audit budget to purchase additional audit resources to deliver the audit plan. A more realistic provision for carry forward work of 250 days (180 days in 2013/14) has been made, recognising that this provision has been underestimated in previous years.

Indicative Allocation of Internal Audit Resources

14. The overall allocation of time from the estimated 3451 days available is as follows, with further detail of the indicative audit review coverage set out in **Appendix 2**. Members will observe that **Appendix 2** analyses internal audit coverage by both audit theme (e.g. Compliance, Financial Management,

Operational Systems) and Departments, giving the indicative % allocation of resources allocated in each case.

Internal Audit Work allocations	Days	%
- Main Audit Review Work (further indicative analysis by Department and Theme in Appendix 2) – (1,634 days) - Museum of London & London Council SLA – (115 days) - Honorary Audits (e.g. Guildhall Club Accounts) – (10 days) - Efficiency Work allocation – (100 days)	1,859	58%
Corporate Risk Management support	134	3.9%
Anti-Fraud & Corruption - investigations and pro-active prevention and policy development	425	12.3%
Advice & Guidance - on risk & controls	160	4.6%
Efficiency Board/EPSC Support	40	1.2%
Audit Planning & Reporting – engagement with senior management, External Audit and detailed update reporting to Members	114	3.3%
Member Committee Support – attendance and support to Audit & Risk Management Committee, and six other Risk/Audit focused committees	71	2.1%
Audit Development – includes further development in use of audit automation and new audit techniques, external networking	127	3.7%
Training	136	3.9%
Staff absences	126	3.7%
Admin Support - staff monitoring/meetings/time recording	259	7.5%
Total	3,451	

14. Individual audit reviews within the operational audit plan will be prioritised as either 'Essential', 'Highly Desirable' or 'Desirable'. As risks and priorities change during the year, additional high priority work can be added to the audit work programme, with lower 'desirable' work displaced as necessary.
15. Detailed internal audit planning for 2014/15 will commence in October through a risk review of the audit universe and audit planning consultation with Chief Officers in order to produce an updated 5 year Audit Strategy and Audit plan for the 2014/19 period. It is planned to present this Audit Strategy and annual audit plan to the Chief Officers Group in January 2014 and seek Audit & Risk Management Committee approval at the 4th March 2014 Committee meeting

for the annual audit plan. The Committee may wish to suggest areas of audit focus, for risk assessment and consideration as part of the detailed audit planning process.

16. Current and future audit plans are regularly reviewed in year with changes made as a result of emerging risks and requests for assurance work or audit support from senior management or Members. Changes to audit plans are reported to the Audit & Risk Management Committee via the regular internal audit update report. The forward audit work programmes will be reviewed on a quarterly basis.

Assurance Mapping

17. Internal audit is piloting the use of assurance mapping techniques with the City of London Police and Guildhall School of Music and Drama in the current year to provide a holistic overview of assurance coverage of key risks and controls. This will assist in the focusing of internal audit activity, by developing a clearer picture of the scope of other assurance activities, particularly that undertaken by external inspectors or management review activities. It is intended to roll these exercises out to larger Departments in 2014/15.

Reporting on Key Themes

18. The Chief Officer Customer satisfaction review identified support for Internal Audit sharing and promulgating more widely, thematic risk and control issues arising from routine audit and investigation work. The purpose of this is so that Chief Officers can seek assurances that similar risk and control issues are not present in their own departments. This thematic reporting will start from an audit and risk focused workshop with the Chief Officers Group on the 27th November and will be progressed and refined in 2014/15 to become a regular feature of internal audit work.

2014/15 Areas of audit emphasis within routine audit work

19. The following areas of audit emphasis for next year's cyclical internal audit plan have been identified as follows.
20. **PP2P and City of London Procurement Service:-** assurance work in this major efficiency and performance improvement area for the City will continue. The embedding of the operation of the new City of London Procurement Service will be reviewed, including the deployment of new procurement methods. Further work to that already undertaken on the PP2P performance payments and governance is also planned to review the transition of the partnership agreement with Accenture in the final phase of the PP2P programme.
21. In addition, organisational compliance with new CLPS requirements will be assessed through review of centralised arrangements and review work within Departments.
22. **Major Projects:-** Embedding of the new project management arrangements will be considered through review of specific projects and project management process reviews.

23. **Financial Management:-** responsibilities and the organisation of teams providing financial management services were re-organised during 2011/12 as a result of the Strategic Finance Review. Discrete Departmental Financial Management reviews will continue to focus on the impact of the new centralised Financial Management arrangements on the control environment. A specific review is planned to provide overall assurance as to the effectiveness of the new Financial Management model that has now been implemented.
24. **Commissioning, Partnerships and major service contracts:-** Adoption of new commissioning, partnerships and major service contract management arrangements, particularly within Community and Children Services, (including Public Health) and Built Environment Departments, will be reviewed.
25. **IS – New IS contract and performance management** – Internal audit work will focus on the embedding of the new performance management and security assurance arrangements with the new contractor Agilisys in addition to providing assurance on key risk areas where operational responsibility remains with the in-house IS functions.
26. **Human Resources Processes**– internal audit work will continue the work planned for the later part of 2013/14 to focus on key Human Resource process areas following the centralisation of HR services. Likely areas including corporate induction and training, staff establishment control, maintenance of staff records and staff declarations.

Further areas of possible audit focus

27. In addition to above areas of emphasis from internal audit's cyclical risk based plans, the following additional areas have been identified for internal audit focus. Member's observations on these areas are sought as well as suggestions as to other areas of focus that could be considered as part of detailed audit planning process over the next few months.
28. **Financial compliance and probity checks** – a programme of Departmental reviews is planned to focus on key financial probity controls, focusing on the areas of cash handling, expense claims, use of procurement cards, overtime payments, gifts and hospitality and declarations of interest.
29. **Information Governance:** –Work would continue to support the officer Information Management Governance Board. Likely focus would be security over sensitive and confidential information held electronically and on-paper records and the Data Quality of management information.
30. **Service Based Reviews** - Internal audit will keep a watching brief over the progress of the service based review process, providing input and challenge in relation to the project management arrangements and risk assessments.

Efficiency and VFM

31. Internal audit will as part of its routine audit work review key control areas, where changes in staffing and processes have resulted from the

implementation of efficiency savings, to ensure adequate controls continue to be applied.

32. In addition, the internal audit function will be continuing to support the work of the Officer Efficiency Board and Member Efficiency & Performance Sub-Committee through undertaking forensic efficiency and performance reviews. Work in supporting the corporate income generation project is also expected.
33. VFM and efficiency review challenges will continue to be built into each audit review where feasible. We would also plan to identify other audit reviews with a primary VFM focus.

Conclusion

34. The City of London has a wide range of differing Departments, institutions and services. The Audit Strategy remains to still provide reasonable assurance on key control risks in each department through cyclical coverage, coupled with a focus on efficiency and other corporate review areas, including Information Governance, Partnerships and Commissioning, and key change projects e.g. CLPS. An increased focus on Financial Compliance and probity checks is proposed for 2014/15.

Appendices

Appendix 1 – Internal audit resource assumptions

Appendix 2 – Indicative internal audit resource allocations by Theme and Department

Appendix 3 - Audit Planning 2013/13 - Indicative Department resource allocation with Budgets and Commentary

Appendix 4 – Audit Risk Assessment Methodology

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Appendix 1

Internal Audit Resource Assumption DETAILED ANALYSIS OF AVAILABLE DAYS IN 2014/2015

	Total	%
Gross Days (52 weeks) – 15.6 FTE's	4056	
Less: uncontrollable days		
Bank Holidays (8 days)	128	
Annual Leave	477	
Net Available days	3451	100.0%
Admin Support		
General (e.g. time recording/staff meetings/staff monitoring)	245	7.1%
MK super user	14	0.4%
Sickness	110	3.2%
Other contractual absences	16	0.5%
CPD Technical Training	78	2.3%
Corporate Training	18	0.5%
CIPFA & IIA Training	40	1.2%
	521	15.1%
Days Available for direct audits and support work	2930	84.9%
Audit Support & Development		
Risk Management		
Corporate Risk Management	134	3.9%
ad hoc on-demand support/advice (risks and controls)	161	4.7%
Chamberlain Business Continuity Support	5	0.1%
Anti-Fraud & Corruption		
Fraud investigations	320	9.3%
Pro-active fraud & prevention	105	3.0%
Audit Planning & Reporting		
Audit Planning	52	1.5%
Audit Plan progress reporting	47	1.4%
External Audit Liaison/co-ordination	15	0.4%
Efficiency & Performance Review		
support to Efficiency Board/EPSC	40	1.2%
Audit Development		
Continuous improvement	68	2.0%
Audit policy, research and development	56	1.6%
Audit intranet	3	0.1%

Member Support

COL Audit Committee	45	1.3%
GSMD Audit Committee	6	0.2%
London Councils - Audit Committee	5	0.1%
Museum of London - Audit Committee	6	0.2%
Police Performance & VFM Committee	4	0.1%
Barbican Centre Risk/Finance Committee	5	0.1%
	<hr/>	
	1071	31.0%

AVAILABLE FOR AUDIT PROJECTS:- (see Appendix 2)

	<hr/>	
	1859	53.9%
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Appendix 2 - 2014/15 Internal Audit Plan - indicative audit resource allocation by Theme and Department

Department	Compliance	Contract, Proc & Project	Corp.Gov. & Performance	Efficiency & VFM	Financial Management	Info Sys and Gov.	Operational Systems	Total	Total (%) of main assurance work
Corporate	65	65	25	25		30	10	220	18.6%
Barbican Centre	10	35		15	25	10		95	8.0%
Built Environment	10	15					35	60	5.1%
Chamberlains	10	25			60	50		145	12.2%
City Police	19	20	3	5	20		13	80	6.8%
City Surveyor	2	35		20	10		12	79	6.7%
CLFS	3				15			18	1.5%
CLS	3				15			18	1.5%
CLSG	3				15			18	1.5%
Community and Children's Services	10	20	15		25		15	85	7.2%
Comptroller and City Solicitor	3				10			13	1.1%
Culture, Heritage & Libraries	8				15		5	28	2.4%
Guildhall School of Drama & Music	5			15	13		9	42	3.5%
Mansion House	2				10			12	1.0%
Markets and Consumer Protection	10				43		4	57	4.8%
Open Spaces	10		16	20	10		4	60	5.1%
Remembrancer's Office	2	10						12	1.0%
Town Clerks	15		40		37	20	30	142	12.0%
Total	190	225	99	100	323	110	137	1184	
Total (%) of main assurance work	16.0%	19.0%	8.4%	8.4%	27.3%	9.3%	11.6%		
Recommendations follow-up								150	
Contingency for additional audit work requests								50	
2013/14 carry forward								250	
								1634	
Museum of London - SLA								70	
London Councils - SLA								45	
Honorary Audits (e.g. Guildhall Club Accounts)								10	
Additional Efficiency Audit Allocation								100	
Direct internal audit review, efficiency and analysis work								1859	

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Appendix 3 - Audit Planning 2014/15 - Indicative Department resource allocation with Budgets and Commentary

Department	Gross Expenditure £000's	Gross Income £000's	Employees Costs £000's	Audit Days	
Barbican Centre	34,146	17,825	14,299	95	Several standalone systems and processes, which require separate assurance and are unique to the Arts Centre operation. Significant capital/contract management activity, separate IS/IT arrangements
Guildhall School Music & Drama	20,485	13,812	13,011	42	Several standalone systems and processes, key operational areas are fee income, professor contracts, school also has separate IS/IT arrangements. Financial Management arrangements are shared with the Barbican Centre
Chamberlain's Dept	20,338	345	15,824	145	Focus on main Financial Systems and key financial stewardship processes
Comptroller and City Solicitor	3,754	465	3,459	13	Areas of focus mainly limited to Departmental Financial management. Legality and regularity of City processes considered through other Departmental assurance areas e.g. Contract audit reviews.
City Surveyor's	39,141	11,554	14,195	79	Key operational risks relating to investment income properties, subject to cyclical coverage
City of London School	15,556	14,515	8,734	18	Focus is mainly on Financial Management, periodic review of ICT and Schools Income
City of London School for Girls	11,692	11,151	7,017	18	Focus is mainly on Financial Management, periodic review of ICT and Schools Income
City of London Freeman's School	13,745	13,824	7,742	18	Focus is mainly on Financial Management, periodic review of ICT and Schools Income
DCCS	36,639	30,666	11,797	85	DCCS has large number of different operations and responsibilities areas, although often the size of service is small, none the less the operational risks can be very high. Area is also subject to external inspections.
Built Environment	30,312	12,797	11,497	60	Assurance focused on some key operational systems, e.g. highways, waste, building control fees
Culture, Heritage and Libraries	14,368	4,632	10,214	28	A number of discrete services which require periodic coverage, covering tourist attractions, library services, and art gallery with high value assets.
Mansion House	2,868	280	1,890	12	Coverage limited to Departmental Management focus, Facilities Management and some compliance work focused on high value assets
City Police	99,943	42,185	82,530	80	Main area of assurance work relates to City of Police employee controls, premises costs and operations, and key cost control areas (e.g. translators fees, compensation costs). Operational risk and controls are subject to regular coverage by Police Constabulary Inspectorate which also consider Police HQ areas, e.g. information system controls over National Database use.
Town Clerks Department	20,524	4,507	14,594	142	Coverage of some key corporate systems, e.g. HR, Business & Performance Management arrangements, and smaller policy Departments where assurance focus is Financial management and grants controls (e.g. EDO/City Bridge Trust). Includes Central Criminal Court coverage which focuses on Financial Management, Employee risk and facilities management arrangements.
Remembrancer's Office	1,951	1,220	1,589	12	Periodic review of Financial Management, employee controls and Guildhall lettings
Open Spaces	18,968	7,830	14,100	60	Periodic review of Financial Management, employee controls, facilities management. Periodic compliance visits to each site, including focus on some leisure/visitor facilities.
Markets and Consumer Protection	19,648	15,527	11,194	57	Compliance reviews covering all City Markets, Consumer protection offices, Central Admin and controls over income collection from traders.
Corporate				220	

1,184

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Internal Audit Risk Scoring Model

The risk assessment model operates by considering the following risk factors:-

- Financial Materiality -
- Reputational Risk -
- Current Controls Effectiveness
- Structural & Process change - systems
- Risk of Loss/fraud/abuse of power

These factors are weighted and applied to each entity in the City of London Audit Universe resulting in an indication of the priority and frequency that different aspects of the City of London should be reviewed.

The audit risk assessment model provides a guide for the suggested interval and priority of audits. However, this is only one part of the audit planning process, which involves consultation and discussion with Chief Officers and senior management in each department, review of risk registers, departmental objectives and priorities, consideration of new developments and auditor professional judgement.

Risk Scoring

The risk scoring model is based on scoring the 5 factors between 1 to 5. They are then weighted resulting in an overall score for the audit universe entity from 1 to 5. Internal Audit guidance for scoring these factors is as follows:-

Risk Assessment Factor Scoring guidance		
Financial Materiality (£) – (Gross income + gross expenditure for audit area) – 30% weighting		
	1	0-9,999
	2	10,000 - 99,999
	3	100,000 - 999,999
	4	1,000,000 - 10,000,000
	5	10,000,000 +
Reputational Risk – 17.5% weighting		
	1	control failure does not result in adverse media comment.
	2	control failure could result in minimal localised reputational damage with minor short-term adverse media comment
	3	control failure could result in local adverse media comment/public perception, possible medium/long-term impact.
	4	control failure could result in Short-term adverse media comment on a National level with prolonged comment on a local level leading to long-term damage and a general loss of confidence.
	5	control failure could result in substantial adverse media comment on an International/National level, with long-term impact that may threaten the City Corporation’s ability to continue to operate as a service provider.

Current Control Effectiveness – 17.5% weighting		
	1	Robust mitigating controls in place
	2	Adequate mitigating controls in place,
	3	Reasonable mitigating controls in place, but may still require improvement.
	4	Mitigating controls are inadequate
	5	Mitigating controls do not exist or are wholly ineffective
Structural and process change – 17.5% weighting		
	1	steady state system/structure with no recent changes
	2	steady state system/structure with only minor changes in process/structure
	3	system/structure has been subject to recent material changes in one or more material process
	4	new system/structure with new control environment
	5	new, complex and innovative system or structure with untested controls and lack of experience in area of development
Inherent risk of loss/fraud/abuse of power – 17.5% weighting		
	1	No risk of loss of desirable assets (including information), cash, financial instruments, abuse of powers
	2	Limited risk of loss of desirable assets (including information), cash, financial instruments, abuse of powers
	3	Possible risk of loss of desirable assets (including information), cash, financial instruments, abuse of powers
	4	Likely risk of loss of desirable assets (including information), cash, financial instruments, abuse of powers
	5	Almost certain risk of loss of desirable assets (including information), cash, financial instruments, abuse of powers

Scoring will result in a risk score which provides an indicative frequency:-

High Risk	3.5 - 5	indicative frequency (every year – 12mths)
Medium Risk	2.75 – 3.5	indicative frequency (every 2/3 years – 36mths)
Low Risk	1-2.75	indicative frequency (every 5 years – 60mths)

Worked Example:

Chamberlain Department Payroll -

Factor	weighting	Score (1-5)	Consideration
Financial Materiality	30%	5	Payroll processes payments of £240,000,000 per year
Reputational Risk	17.5%	2	Errors in processing or Fraud incident could cause result in local adverse media comment/public perception, possible
Current Controls Effectiveness	17.5%	2	Well controlled area, previous audits have not identified anything other than minor issues. Payroll manager often consults internal audit on control issues.
Structural & Process Change	17.5%	2	Have been changes to itrent, and move away from paper payslips however fundamental processing system and procedures hasn't changed
loss/fraud/abuse of power	17.5%	3	No cash wages, however a reasonable inherent risk of creation of ghost employee's etc, however good segregation of duty controls minimise opportunities
Total score		3.075	Medium risk, indicates this area should be reviewed every 2/3 years

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Agenda Item 10

Committee(s):	Date(s):
Audit and Risk Management Committee	15 th October 2013
Subject: Internal Audit Charter	Public
Report of: Chamberlain	For Decision
<p>Summary</p> <p>The new Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2013. These standards are mandatory and underpin the Internal Audit arrangements within the City of London Corporation. A full report on the new standards was provided to the June Audit and Risk Management Committee.</p> <p>One of the actions necessary to implement the new PSIAS has required the revision of the current Internal audit – Terms of Reference, turning them into an Audit Charter, so that they specifically address the additional requirements of the new audit standards.</p> <p>The PSIAS uses a terminology which needs to be applied to the specific context and organisational structure of the City of London Corporation. In particular, it refers to the “Board” which, for most purposes, is the Audit and Risk Management Committee. It also refers to the role of the Chief Audit Executive, which in the City of London Corporation is the Head of Audit and Risk Management. The Audit Charter has a key role in that it codifies functional reporting of the internal audit function to the Board; i.e. as defined in the PSIAS.</p> <p>A draft internal audit charter can be found at Appendix 1; it has been prepared to meet the requirements of the PSIAS and includes key performance expectations for both the internal audit section and Departments, in relation to the timely finalisation of internal audit work and the implementation of audit recommendations.</p> <p>Recommendations</p> <p>Members are asked to:</p> <ol style="list-style-type: none">1. Approve the Draft Audit Charter attached at Appendix 1	

Main Report

Background

2. The new Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2013. These standards are mandatory and underpin the Internal Audit arrangements within the City of London Corporation. The Head of Audit and Risk Management will be expected to report on conformance with the PSIAS in his annual report for the year 2013/14. A full report on these new standards was provided to the June 2013 Audit and Risk Management Committee.
3. The PSIAS uses a terminology which needs to be applied to the specific context and organisational structure of the City of London Corporation. In particular, it refers to the “Board” which, for most purposes, is the Audit and Risk Management Committee. It also refers to the role of the Chief Audit Executive, which in the City of London Corporation is the Head of Audit and Risk Management.
4. The PSIAS contain a number of key public sector requirements. Attribute Standard 1000 requires the purpose, authority and responsibility of the internal audit activity to be defined formally in an internal audit charter which should:
 - define the terms “board” and “senior management” for the purposes of internal audit activity;
 - cover arrangements for appropriate resourcing;
 - define the role of internal audit in any fraud-related work; and
 - include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.
5. One of the actions necessary for City of London to be fully compliant with the new PSIAS was to turn the internal audit – Terms of Reference into an Audit Charter, so it specifically addresses the additional requirements of the new audit standards. In addition, creation of this Charter has been used as an opportunity to document formally performance expectations of both internal audit and departments, in making the internal audit process operate effectively. The previous internal audit Terms of Reference was approved by this Committee in September 2012.

The New Standards

6. A comparison between the Terms of Reference required under the previous 2006 Internal Audit Code and the PSIAS requirement for an internal audit charter shows only the following differences:
 - the Terms of Reference had to identify internal audit’s contribution to the review of the effectiveness of the control environment and required and enabled the HIA to deliver the annual audit opinion, and

- the PSIAS ask for mostly the same content as in the Terms of Reference, apart from those specific points set out in the public sector requirement to PSIAS 1000.
7. Responsibility for and ownership of the Internal Audit Charter remains with the organisation. PSIAS 1000 requires the 'Chief Audit Executive' (Head of Internal Audit) to review the Charter periodically but final approval resides with the 'Board' (Audit and Risk Management Committee).
 8. Within the City of London Corporation, it was agreed at the June 2013 Audit and Risk management Committee that the Audit and Risk Management Committee will fulfil the functions of the "board", as defined in the PSIAS. The following exceptions were noted:-
 - approving decisions regarding the appointment and removal of the Head of Audit;
 - approving the remuneration of the Head of Audit; and
 - approving the Internal Audit budget and resource plan.
 9. 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 PSIAS requirement will be achieved through the Town Clerk (Chief Executive) and the Chairman of the Audit and Risk Management Committee contributing feedback to the performance appraisal of the Head of Audit and Risk Management.
 10. It was also noted that the Audit and Risk Management Committee would be consulted, through the Chairman of the Committee, on the appointment and removal of the Head of Audit and Risk Management.
 11. 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 is provided with regular updates on the availability and utilisation of internal audit resources and seeks assurances as to their adequacy.
 12. A draft Audit Charter can be found at **Appendix 1**; it has been prepared to meet the requirements of the PSIAS and includes key performance expectations for both the internal audit section and Departments in relation to the timely finalisation of internal audit work and the implementation of audit recommendations.
 13. The Audit Charter also sets out the role and relationship with the Chief Finance Officer (in being statutorily responsible and accountable for maintaining an effective system of financial control) and the responsibilities that fall on the Chamberlain, as Chief Finance Officer, to support the Audit and Risk Management Committee and ensure internal audit is independent and effective.

14. The Audit Charter is provided to this Committee for consideration and approval.

Conclusion

15. The new Audit Charter developed for approval, although not required to be substantially different from the previously approved Internal Audit Terms of Reference, has been re-drafted to meet fully the requirement of the new PSIAS and introduce key performance expectations for the operation of the internal audit function.

Appendices

- **Appendix 1: City of London Corporation – Internal Audit Charter**

Background Papers:

- 20th June 2013 Audit and Risk Management Committee - Public Sector Internal Audit Standards
- PSIAS Local Government Application Note

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CITY OF LONDON

INTERNAL AUDIT

Audit Charter

Definition of Internal Audit

1. The Public Sector Internal Audit Standard mandatory definition of internal auditing 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.”

Internal Audit Purpose

2. The organisation is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital part in advising the organisation that these arrangements are in place and operating properly.
3. The annual internal audit opinion, which informs the annual governance statement, both emphasises and reflects the importance of this aspect of internal audit work. The City of London’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation’s objectives. To provide optimum benefit to the City of London Corporation, internal audit works in partnership with management to improve the control environment and assist the organisation in achieving its objectives. This partnership operates in such a way as to ensure that legal requirements and those of the Public Sector Internal Audit Standards (PSIAS) are met.
4. Internal audit work plans are aligned to the Strategic Aims and Key Policy Priorities of the City of London through a thorough risk assessment, understanding of these aims and priorities and continuous engagement with senior management. In the current climate, particular emphasis is given to Key Policy Priority 2:

“Maintaining the quality of our public services whilst reducing our expenditure and improving our efficiency”
5. To achieve this, the Internal Audit section engages with the City’s Corporate and Departmental change programmes, providing expert independent and objective input to emerging issues.

6. Core activity of the Internal Audit Section will involve the delivery of a programme of audit that utilises a combination of rotation and risk analysis to review all areas of the City's operations. The Section's work ethic combines open communication, professionalism, expertise, integrity and trust.

Internal Audit Standards

7. Public Sector Internal Audit Standards (PSIAS), which came into effect on 1 April 2013 are the mandatory and underpin the Internal Audit arrangements within the City of London Corporation. These mandatory 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.

Accountability, reporting lines and relationships

8. 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;
 - approving the remuneration of the Head of Audit; and
 - approving the Internal Audit budget and resource plan.
9. 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 PSIAS requirement will be achieved through the Town Clerk (Chief Executive) and the Chairman of the Audit and Risk Management Committee contributing feedback to the performance appraisal of the Head of Audit and Risk Management.
10. 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 is provided regular updates on the availability and utilisation of internal audit resources and seeks assurances as to their adequacy.
11. The Chamberlain 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.
12. The Head of Audit and Risk Management, although line-managed by the Chamberlain, has direct reporting lines 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.
13. 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.

Non Audit Areas:

14. The Internal Audit Section is also responsible for the following non-audit areas:
15. **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.
16. **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 Benefit payments, Tenancy Fraud and the investigation of serious whistleblowing concerns raised through the City of London Whistleblowing policy.
17. **Efficiency Review support** – Internal audit will as part of its routine audit work review key control areas, where changes in staffing and processes have resulted from the implementation of efficiency savings, to ensure adequate controls continue to be applied. In addition, the internal audit function provides support for the work of the Officer Efficiency Board and Member Efficiency & Performance Sub-Committee through undertaking forensic efficiency and performance reviews. The extent of this consultancy work is explained within

the annual internal audit plans agreed by the Audit and Risk Management Committee.

18. 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.
19. 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.

In fulfilment of its role, the Internal Audit Section will:

20. Engage with all stakeholders (the Audit and Risk Management Committee and other appropriate Members, the Chamberlain, and all client Chief Officers) to ensure that the internal audit service remains customer-focused and supports the business goals of the City.
21. Conduct a comprehensive, risk-based, audit planning process to ensure that the main risk areas of the City of London's operations (and external partners, where appropriate) are provided with an appropriate and structured internal audit service to assist in the continuous improvement process. The Head of Audit and Risk Management will report to the Audit & Risk Management Committee on the adequacy of the internal audit resources available to achieve this coverage.
22. Review systems, controls and procedures and, where necessary, make recommendations to ensure that these are both efficient and effective and to monitor the use of resources in pursuit of the defined objectives of the City.
23. Maintain a role in the systems development process, contributing in terms of audit, risk and control requirements.
24. Provide an advisory service to departments with regard to best practice in governance, risk and control procedures.
25. For all suspected or detected fraud, corruption or impropriety: undertake a risk assessment; agree an appropriate investigation approach; review the design and operation of relevant internal controls and consider the implications for the internal audit opinion and the risk-based audit plans.
26. Liaise with the City of London's external auditors and other review agencies, in order to maximise the efficiency of audit and scrutiny coverage provided to the City, and minimise the audit and inspection burden.

27. To report the activities of the Internal Audit Section to the Audit and Risk Management Committee and other relevant Service Committee Chairman and Deputy Chairman on a regular basis, including the reporting of internal audit review findings, as work is concluded and findings agreed with officers. Where there is disagreement between internal audit and a Chief Officer on the acceptance of significant internal audit recommendations, the Chamberlain will mediate in the first instance, prior to the issue being highlighted by internal audit to the Audit and Risk Management Committee.
28. Provide an annual Head of Audit Report and Opinion to the Town Clerk, Chamberlain and Audit and Risk Management Committee on the adequacy of the internal control environment in support of the Annual Governance Statement.
29. In order to satisfy Regulation 6 of the Accounts and Audit Regulations, conduct a review of the effectiveness of the City of London internal audit.

Management Expectations in Support of the Internal Audit Function:

30. In pursuit of the above, the Head of Audit and Risk Management has right of access to all records, assets, personnel and premises, including those of partner organisations (through appropriate contract clauses) and the authority to obtain such explanations, as he considers necessary to fulfil these responsibilities.
31. It is incumbent upon Chief Officers to ensure that the Head of Audit and Risk Management is informed of all system changes and major projects.
32. Internal audit must be notified of all suspected or detected fraud, corruption or impropriety immediately, to enable an investigation approach to be agreed with the Department.
33. In order for the City's audit process to work effectively, it is essential that the reviews are initiated, fieldwork undertaken, and reporting concluded on a timely basis.
34. Following agreement of the overall audit plan by the Audit and Risk Management Committee, Internal Audit will consult with departmental management on the detailed scope, focus and exact timing for the planned audit reviews.
35. Three weeks notice will be given for prior to the commencement of audit fieldwork, except where the effectiveness of the audit work would be compromised if notice was given e.g. cash spot checks.
36. Management must ensure staff availability, access to records and co-operation during the agreed time for the audit review, so that the work is conducted during the agreed timescales. Internal Audit will keep management informed of progress and any significant issues as they arise.

37. The Audit & Risk Management Committee expects that Internal Audit work is concluded on a timely basis. The following two target measures have been agreed for this area:-

- timely production of draft report – Internal Audit will issue draft reports within 4 weeks of end of fieldwork
- timely agreement of Internal Audit reports – final audit report (including agreed management action plan) issued within 5 weeks of issue of draft report.

38. Once dates for the implementation of agreed recommendations are confirmed, it is the expectation of the Audit & Risk Management Committee that the agreed timescales are achieved. Slippage in timescales for the implementation of recommendations should only occur in exceptional circumstances, with explicit agreement being sought from Internal Audit prior to the agreed dates for implementation being passed.

39. Internal Audit will seek regular updates from recommendations owners for red and amber priority recommendations, to confirm their implementation is progressing to agreed timescales. The timely implementation of audit recommendations is a consideration within the performance appraisals of all Chief Officers.

October 2013

Committee(s):	Date(s):
Audit and Risk Management Planning and Transportation Committee	15 October 2013 5 November 2013
Subject: Review of Planning Governance	Public
Report of: Town Clerk	For Information

Summary

At its meeting of 5 March 2013, your Committee agreed that a review of the Director of the Built Environment's new Processes and Procedures be undertaken after their first year of operation.

The Committee agreed that the Review would draw on expertise from a Group of officers representing the Chamberlain, Internal Audit, Comptroller & City Solicitor and the Town Clerk, and would benefit from an external perspective into the City's existing planning processes.

As part of the Review, external opinions were sought on the matter from practitioners and stakeholders, and extensive documentation was compiled. Critical challenge was provided by Officers from outside the Department of the Built Environment as requested by the Committee.

The Review confirmed that the City's processes were fully satisfactory and legally sound.

Recommendations

That the report be received and its contents noted.

Main Report

Background

1. At its meeting of 5 March 2013, your Committee agreed that a review of the Director of the Built Environment's new Processes and Procedures be undertaken after their first year of operation. The Terms of Reference of that Review were as follows:-

It was proposed by the Chairman, seconded by Alderman Anstee and agreed unanimously, that:

1. *A review of the Director of the Built Environment's new Processes and Procedures be undertaken after their first year of operation, in the context of the governance concerns expressed by Alderman Anstee.*

2. *The Town Clerk co-ordinate the review, to be presented to the Audit and Risk Management Committee, drawing on appropriate resources, including from Internal Audit, Comptroller and City Solicitor's and the Built Environment, so as not to preclude use of other expertise including (if necessary) external expertise.*
3. *Subsequent to the meeting, the Chairman and the Town Clerk agreed that the Review should be presented to the October Audit and Risk Management Committee.*

Current Position

2. Alderman Anstee led on this initiative and pressed for a review. This presented an opportunity for the City to look closely at its planning processes and procedures to see whether they are professional and of an appropriate standard for the City Corporation. This review has enabled us to demonstrate that, generally, we are in a good place and this report explains in a little more detail the work that has gone into the review and the findings.
3. Following the resolution of the Audit and Risk Management Committee, the Director of the Built Environment was asked to prepare a report setting out how the new processes and procedures are working, in the context of the concerns expressed by Alderman Anstee. . He was also asked to include the arrangements for internal communication and external consultation.
4. In addition, the Director of the Built Environment and the Planning Services and Development Director arranged two meetings during the summer recess. They met Jane Smith and Tim Macer, the Chairman and Deputy Chairman of the Barbican Association, together with Dr Garth Leder, the Chairman of the Barbican Association Planning Sub Committee, to discuss the way we consult on planning applications. They also met Simon Ricketts, a partner from SJ Berwin specialising in planning, compulsory purchase and local government law, recommended by Alderman Anstee, to seek his views on our procedures.
5. A 'star chamber' meeting was arranged for the afternoon of Friday 13 September, to provide critical challenge and to review the concerns raised by Alderman Anstee.
6. The following documentation was compiled and reviewed ahead of the 'star chamber' meeting:-
 - i. Resolution from the Audit and Risk Management Committee, dated 5 March 2013
 - ii. Governance issues raised by Alderman Anstee and Tim Macer (representative from the Barbican Association), during a meeting with Internal Audit on the 28 October 2011.

- iii. Report on the Department of Built Environment planning processes and procedures.
 - iv. Pre application checklist
 - v. Pre application meeting request
 - vi. Pre application agenda
 - vii. Pre application pro-forma for recording the meeting
 - viii. Pre application practice note
 - ix. Minutes of the Meeting dated 4 September 2013 between the Director of the Built Environment and Jane Smith, Tim Macer and Dr Garth Leder from the Barbican Association.
 - x. Notes of the meeting held on the 23 August 2013 between the Director of the Built Environment and Simon Ricketts.
 - xi. Email received from Simon Ricketts on the 2 September 2013.
7. Having reviewed the above documentation, a Group of officers comprising the Chamberlain, the Comptroller and City Solicitor, the Deputy Town Clerk and Head of Audit and Risk Management met with the Director of the Built Environment and the Planning Services and Development Director to provide critical challenge. They were joined by Mike Kiely, Director of Planning and Building Control London Borough of Croydon and President of the Planning Officers' Society, to provide external challenge.
8. The report on the Department of the Built Environment planning processes and procedures set out how the system was working, prior to the changes being put in place. Prior to the new procedure being implemented the pre application meetings were less formal. Developers were inclined to submit data, such that officers could not consider it in advance and nor could all those officers who might have a view be consulted. There was also a concern raised about the time when the public is made aware of a developers' proposal. A view was expressed by objectors to schemes that the consultation stage is too late in the planning process to influence the outcome, although officers seek to anticipate these concerns, as the scheme is being developed.
9. During the challenge session, the review group of officers scrutinised the new arrangements put in place by the Director of the Built Environment and looked at how they were working: this included the Practice note for meetings with Planning Applicants, attached at Appendix 1 and the new procedures introduced, to ensure the efficient arrangements of these meetings. The group noted the revised processes were working well.

10. The group also discussed the outcome of the meeting with the Barbican Association, which emphasised that their interface with officers was good and their desire to continue to work effectively together. The Barbican Association also made some suggestions regarding how they felt the developers could improve further the consultation with them and this included arrangements for advising the Barbican Association representatives to meet planning officers on larger and more contentious applications and to be alerted about minor applications, The Department of the Built Environment agreed to add something to the supplementary guidance encouraging developers to discuss their plans with residents and to incorporate their comments into their proposals in accordance with the National Planning Policy Framework. The group also noted the informal reaction of the external planning lawyer who commented that the new pre-application checklist and practice note is good and useful.
11. The Group noted that the statutory planning process and Government guidance was designed to give developers a degree of certainty along the way and that, in general, the public was well aware of the limits within which they could raise objections to planning applications. Mr Kiely commented that, in the strictest sense, the public was ‘notified of’ rather than ‘consulted on’ planning applications.
12. Mr Kiely made observations concerning the City of London’s planning procedures and confirmed that he was fully satisfied with these from a legal point of view. Mr Kiely went on to describe the process followed by Croydon bearing in mind the different characters of the two areas, and the different political environment.
13. Other points raised as part of the session were as follows:-
 - A key aspect of the Planner’s job was to anticipate issues which might be raised by residents and other stakeholders and the purpose of pre-application meetings was to mitigate those.
 - It was underlined that pre-application discussions did not take place in a “vacuum”; planning was governed by an extensive array of planning advisory documents, policies including the Core Strategy and the Draft Local Plan, supplemented by constraints relating to conservation areas, heights, views etc. as well as government guidance such as the National Planning Policy Framework. This context meant that the remit and character of pre-application meetings was shaped by those policies.
 - Developers valued a greater degree of certainty in the City than elsewhere given its non-party political status, and we needed to retain our high quality service.

- The City Corporation already encouraged developers to engage with the community and applications that have demonstrably benefitted from pre-application consultation are likely to be more favourably considered. The Department of the Built Environment is considering ways to ensure that residents are better informed about proposed developments, including ensuring that we have an agreed and consistent point of contact. It was added that the Draft Local Plan might be amended to reflect this.

Conclusion

14. A review of how the new Planning Processes and Procedures are operating following their first year in operation has been conducted, as requested by the Audit and Risk Management Committee. External views were sought on the matter from practitioners and stakeholders, and extensive documentation was compiled. A Group of officers comprising the Chamberlain, the Comptroller and City Solicitor, the Deputy Town Clerk and the Head of Audit and Risk Management provided critical challenge as part of the Review. The Review found the City's processes to be fully satisfactory and legally sound.

Background Papers:

None

Appendices

Appendix 1 Practice Note for meetings with Planning Applicants.

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Practice Note for meetings with Planning Applicants

Context

The City of London is frequently praised for facilitating property development through its responsive planning service. Developers, architects and consultants value the ability to meet planning officers in pre-application meetings to discuss their schemes and achieve a recommendable formal planning application. This process reduces uncertainty for the developer and allows the planning authority to influence the form of the development to mitigate its impact upon its surroundings and the wider City. The importance of pre-meetings is recognised in the NPPF and their role will also be influenced by the Localism Act. By building upon our current practices we will provide a reliable and consistent service for applicants.

This Practice Note sets out the key points which we will observe when setting up and conducting meetings with prospective planning applicants. These arrangements must meet the needs of our customers while making efficient use of our resources and provide better coordination across the organisation. Our revised procedures may be perceived as reducing flexibility towards applicants but they will provide more certain advice and reduce the possibility of confusion or frustration at a later stage.

Procedure for dealing with chargeable pre-application meetings

The initial contact

When a request for a meeting is received it must be established whether this is a pre-application meeting to discuss a development proposal or other type of planning discussion.

Pre-application meetings should be arranged through Toni or Amy depending on whether Peter or Annie is involved.

If the proposed meeting is a true pre-application meeting the applicant will submit the pre-application form/necessary docs and the cheque.

On receipt of these Peter and/or Annie will decide whether they need to be involved in the case. If either do then the appropriate Assistant Director will advise Toni who will be the Case Officer and the Design Officer. If neither Peter nor Annie need to be involved the case will be allocated in the same way via Amy.

Development Management officers (including Archaeology and Access)/Environmental Enhancement/Local Transportation/Environmental Services/Policy will hold regular slots in their diaries twice weekly (date/time to be arranged) for an internal pre-meeting (officers only preparatory meeting) on the pre-application meeting requests received.

The Case Officer's Role

The Case Officer:

- Will manage the case.
- Will review the case documents.
- Will distribute appropriate information to *all* teams, advising them that Case X is to be discussed on date Y.
- Will advise the applicant when their project will be discussed – within 5 days unless further information is required.
- Will relay what further information is required, if applicable, to the developer and will advise that the proposal will be discussed at the next meeting within 5 days of the receipt of the further information.
- Will advise Toni/Amy who is to attend the pre-application meetings.

Pre-meeting

The Case Officer:

- Will lead the discussion and will record the relevant issues, our policy position and any further work needed before the meeting with the applicant.

- Will follow a procedure note to ensure consistency and avoid oversights (to be prepared see below)

If there are no pre-application cases to discuss the meeting slot will be vacated.

At the pre-meeting it will be agreed who will be represented at the pre-application meeting. Usually initial views on potential issues will be relayed by Peter and/or Annie/the Case Officer/Design Officer with further meetings on detailed matters being held subsequently. It would be helpful if the Development Engineers were the normal channel for highway matters unless very significant highway issues are raised.

If there is any disagreement as to who should attend a meeting it will be agreed by the relevant Divisional Directors.

Immediately following the pre-meeting the Case Officer will tell Toni/Amy which officers will attend the pre-application meeting. This stage will be postponed if further information is required from the developer before a decision can be made as to who should attend the pre-application meeting.

Toni/Amy will offer meeting dates to the developer.

Pre-application meeting

It is essential that the relevant issues and the points agreed at the pre meeting are those conveyed to the applicant at the pre-application meeting.

Subsequent discussion

Subsequent discussions on the project should follow the same process. The Case Officer will normally attend every meeting but it may not be appropriate in every case.(eg – archaeology or other specialist meetings).

The developer will submit a further form/docs/cheque, the Case Officer distributing the information, further information requested from the developer if necessary and the pre-meeting will be used to brief on any subsequent pre-application meetings that have occurred.

Recording meetings

File notes of the matters discussed and agreed at both the pre-meeting and the pre-application meeting will be made by, or on behalf of, the Case Officer and anyone else who has held 'specialist' meetings. These meeting notes will be placed on an agreed part of the W drive, with restricted access if necessary, and the dataset will be upgraded to include dates of the pre-meetings. Recording meetings will be increasingly relevant with the growing requests for FOI's and the Localism Act requirements

Where appropriate, written advice will be provided to developers within 10 days of the pre-application meeting signed off as per the pre-application form.

Development of procedure notes

A checklist has been prepared to be compiled by the Case Officer prior to the meeting using information supplied by the relevant offices.

The pre application meeting form has been amended.

Audit and Risk Management Work Programme 2013/14

(Please note - additions since last meeting in italic)

Date	Items
11 Dec 2013	<ul style="list-style-type: none"> • Deloitte's Annual Audit Letter on the City Fund and Pension Fund Financial Statements • Deloitte's annual audit plan for City Fund Financial Statements including agreement of the audit fee • Deloitte's annual audit plan for the Pension Fund Financial Statements including agreement of the audit fee • <i>Strategic Risk Review - SR14 Longer term financial viability</i> • External Audit - annual audit plan for the Non Local Authority Funds including agreement of the audit fee • Internal Audit Progress Report • Internal audit recommendations follow-up report • Anti-Fraud & Investigation Update report • Risk Management Update
28 January 2014	<ul style="list-style-type: none"> • Strategic Risk Review - SR3 Financial Stability • Strategic Risk Review – SR11 Pond Flood Risk • Committee Effectiveness Review – annual update • <i>Internal Audit Customer Satisfaction Review – update on actions list</i> • <i>CQC Inspection Report – Re-ablement Service – Community and Children's Services</i>
4 March	<ul style="list-style-type: none"> • 2014/15 Internal audit plan • Internal Audit Progress Report • Internal Audit recommendations follow-up report • <i>Internal Audit Customer Satisfaction Review (review of actions list)</i> • Investigation Update report • Risk Management Update • Strategic Risk Review - SR4 Planning Policy • Strategic Risk Review - SR5 Flooding in the City • Annual Governance Statement - methodology

<p>13 May</p> <p>May (continued)</p>	<ul style="list-style-type: none"> • Internal Audit Progress Report • Internal audit recommendations follow-up report • Anti-Fraud & Investigation Update report • Risk Management Update • Strategic Risk Review - SR2 Supporting the Business City • Strategic Risk Review - SR6 Project Risk • Head of Internal Audit Opinion and Annual report • HMIC Police Inspections Summary report • Annual Governance Statement – 2013/14 • Private Member meeting with Head of Internal Audit
<p>22 July</p>	<ul style="list-style-type: none"> • Audited 2013/14 City Fund and Pension Fund Financial Statements together with Deloitte's report thereon • Audited 2013/14 Bridge House Estates and Sundry Trusts Financial Statements together with Deloitte's report thereon • Audited 2013/14 City's Cash and City's Cash Trust Funds Financial Statements together with Moore Stephens report thereon
<p>9 September</p>	<ul style="list-style-type: none"> • Internal Audit Progress Report • Internal audit recommendations follow-up report • Investigations Update report • Risk Management Update • 2 Strategic Risk Reviews – tbc
<p>4 November</p>	<ul style="list-style-type: none"> • Internal Audit Planning for 2014/15 • 2 Strategic Risk Reviews – tbc
<p>8 December</p>	<ul style="list-style-type: none"> • Deloitte's Annual Audit Letter on the City Fund and Pension Fund Financial Statements <ul style="list-style-type: none"> • Deloitte's annual audit plan for City Fund Financial Statements including agreement of the audit fee • Deloitte's annual audit plan for the Pension Fund Financial Statements including agreement of the audit fee • Moore Stephens - annual audit plan for the Non Local Authority Funds including agreement of the audit fee • Internal Audit Progress Report • Internal audit recommendations follow-up report • Anti-Fraud & Investigation Update report • Risk Management Update

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Agenda Item 16

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Agenda Item 17

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of the Local Government Act 1972.

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Agenda Item 18

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Agenda Item 19

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