

## **AUDIT AND RISK MANAGEMENT COMMITTEE**

**Monday, 18 July 2016**

Minutes of the meeting of the Audit and Risk Management Committee held at Guildhall on Monday, 18 July 2016 at 10.30 am

### **Present**

#### **Members:**

Nigel Challis (Deputy Chairman)  
Deputy Roger Chadwick (Ex-Officio Member)  
Hilary Daniels (External Member)  
Deputy Jamie Ingham Clark  
Kenneth Ludlam (External Member)

Caroline Mawhood (External Member)  
Henry Colthurst  
Alderman Peter Estlin  
Revd Dr Martin Dudley  
Hugh Morris (Ex-Officio Member)

### **In Attendance**

#### **Officers:**

Julie Mayer	- Town Clerk's Department
Peter Kane	- Chamberlain
Caroline Al-Beyerty	- Chamberlain's Department
Leigh Lloyd-Thomas	- External Auditor, BDO
Margaret Jackson	- Culture, Heritage and Libraries Department
Steve Telling	- Chamberlain's Department
David Pearson	- Director of Culture, Heritage and Libraries

*At 11 am, the Committee observed 1 minute silence to remember those who lost their lives in the Nice Terrorist Attack on Bastille Day.*

#### **1. APOLOGIES**

Apologies were received from

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

There were no declarations.

#### **3. MINUTES OF THE PREVIOUS MEETING**

The minutes of the meeting held on 14<sup>th</sup> June were approved.

#### **4. OUTSTANDING ACTIONS OF THE COMMITTEE**

The Committee received its outstanding actions list and noted the following updates since the last meeting:

- Members noted that a Deep Dive Risk Review for the Boys School had been scheduled for February 2017. The School suggested that, in delaying until February, rather than September 2016, they would be able to produce a more meaningful report. Furthermore, the beginning of September is always a very busy time for the school.
- In respect of the new Multi Academy Trust (MAT), the Deputy Chairman of the Education Board was in attendance and suggested that this area might warrant its own 'Deep Dive' Risk Review, given the pace of expansion of MATs. Members agreed with this suggestion.
- It was also suggested that, following the Brexit vote, 'Adverse Political Developments' also warranted a Deep Dive Review. The Chamberlain suggested that, given the current level of uncertainty, this might be best scheduled in the Autumn.
- In respect of the External Benchmarking Review, the Chamberlain advised that, following receipt of emails from Members of the Committee, he had negotiated an additional 5 days work and would allocate time with Members of the Committee, which had not been part of the original Terms of Reference. The Chamberlain advised that he had commissioned the review in order to carry out a quality assurance check and not in response to any issues. Members would receive an outcome report in the autumn.
- In respect of the Annual Governance Statement, Members noted that this would be removed from the Outstanding Actions List once the Annual Accounts had been signed off.

## 5. **COMMITTEE WORK PROGRAMME**

The Committee received its work programme, up to February 2017. It was suggested that the Committee Effectiveness Review could be scheduled less frequently. Given that the majority of the work had been done, the Chamberlain suggested that it should go ahead this time and the Town Clerk agreed to check whether there was any guidance on frequency and good practice.

## 6. **CULTURE, HERITAGE AND LIBRARIES DEPARTMENTAL RISK REPORT 2016-17**

The Committee received a report of the Director of Culture, Heritage and Libraries in respect of the Departmental Risk Register. Members noted that, following a recent Risk Challenge Session, the Director and his Senior Management Team had worked with the Chamberlain to produce a new, more strategic register. Members noted that the new register had been presented to the Culture, Heritage and Libraries Committee on 11 July and Members had been very pleased with the revisions. The new register would be monitored and shared regularly with the Culture, Heritage and Libraries and Audit and Risk Management Committees, as appropriate.

In response to Members' questions, the following points were raised/noted:

An external Member queried whether the 'Working Partnerships' Green rating was appropriate and whether it tested the impact of any future deterioration in relationships. The Director advised that, whilst this was part of the Department's on-going challenges, there was an expectation on managers to show professional awareness and be pro-active in recognising opportunities. The Member also suggested that it might be helpful to indicate which partnerships might pose the highest risks and the Director agreed to develop the narrative further.

In respect of the heightened terrorist risk, the Director advised that he worked closely with the Police and sought their advice on security measures. Members noted that Rapiscan and CCTV were installed at Tower Bridge but not at the Monument, which would be operationally difficult. The Director also advised that he had been working with the Assistant Town Clerk on a whole scale security review across the Guildhall. Members suggested that it might be timely for the Audit and Risk Management Committee to receive a Deep Dive Report on the threat of a terrorist attack from Town Clerk's Department.

In response to a comment that Risks 1 and 8 were very similar (i.e. Effect of Terrorism on Tower Bridge and the Monument and Major Events/ Incidents which affect London); the Director explained that there had been some debate in recent years as to the grading of terrorist related risks and they were likely to be amber if very stringent mitigations were place. Members also noted that Risk 1 focussed on an attack at Tower Bridge and the resulting impact on transport, tourism and income to the City Bridge Trust; whereas Risk 8 covered a more general risk on the impact of falling numbers of tourists to the City after major incidents e.g. terrorism, adverse weather etc., which required a high level of awareness but might be difficult to mitigate. The Director felt that the distinction between the two risks enabled greater focus on the different aspects within each and Members agreed that, at this stage, they should not be joined.

Members noted IT performance generally across the City of London Corporation and its potential impact on the public facing aspects of the Culture, Heritage and Libraries Committee. The Director advised that this had also been discussed at the Culture, Heritage and Libraries Committee last week and was being monitored with the Chairman of the Culture Heritage and Libraries Committee and the IT Sub Committee. The Director agreed to review the score of the risk covering a loss of IT systems.

In concluding, the Chairman and Members thanked the Director for a good, strategic risk report and register, evidenced by the quality of debate and focus which it had prompted.

RESOLVED, that - the contents of the report and the actions identified to monitor and effectively manage risks arising from operations in the Culture, Heritage and Libraries Department be noted.

**7. 2015/16 CITY FUND AND PENSION FUND FINANCIAL STATEMENTS - TOGETHER WITH BDO'S REPORT THEREON.**

The Committee considered a report of the Chamberlain in respect of the 2015/16 City Fund and Pension Fund Financial Statements, together with BDO's report thereon.

Members noted that two briefing sessions had taken place (for all Members of the Court of Common Council - on 6<sup>th</sup> and 7<sup>th</sup> July 2016) and notes from those sessions had been circulated to Members of the Audit and Risk Management Committee and Finance Committee, ahead of their meetings this week. This was the first year for BDO acting at the City of London Corporation's External Auditors of the City Fund and Pension Fund Financial Statements and, subject to their outstanding work being concluded satisfactorily, they would be giving an unqualified opinion.

The Financial Services Director had advised Members (at the briefing sessions) about a pension's system/ledger system reconciliation discrepancy. This was being worked through and very nearly complete. Whilst minor, the Director would be augmenting resources in this area in the future to avoid any recurrence.

The External Auditor thanked the Chamberlain for the spirit of joint working, particularly as the Audit intensified over the past 5 weeks. The External Auditor took Members through their summary report as follows:

- Management Override of Controls – no bias had been detected.
- Revenue Recognition – a rent miscoding (isolated error) would be corrected in the final version of the statements.
- Lease Premiums – the Auditors were content with the position and Members were reminded that City's Cash had adopted very similar accountancy standards. Bernard Morgan House had been treated as an investment property as the City of London Corporation had retained the freehold (it was previously classified as 'held for sale'). The Auditor advised that they had only just received some Investment Property Valuations but the spread sheets, as at 31 March 2016, were as expected. Post Brexit, the rental income risks of £24-27m over the next 4 years were noted but this would not be noted in the accounts unless there was more certainty before the financial statements are signed by the auditors.
- Valuation of Housing Dwellings – the assumptions used by the values on rent yields were incorrect for some Barbican Estate Properties, which resulted in the values being £4.6m overstated on the Balance Sheet. This would also be corrected in the final version of the statements. The Income and Expenditure Account would not be affected by this adjustment.
- Pension Liabilities – the Auditors were content with the assumptions and Members noted that the Treasury sets the discount rate to be used. The City of London Corporation should be more concerned with the triennial

Actuarial Valuation, which is currently being undertaken, using 31 March 2016 as the base date.

- Use of Resources – the Auditors would continue to work with Her Majesty's Inspection of Constabulary on the City of London Police's provisional findings.
- Litigation – It was confirmed that as part of the annual closing of accounts process the Comptroller and City Solicitor provides confirmation of litigation that the City Corporation is involved with; the Financial Services Director advised that so far there was nothing significant that should be added by way of a note to the financial statements.
- Risk Management – There is a section on risk management in the narrative summary but also a section on the nature and extent of financial risks arising from financial instruments at disclosure note 20. It would be helpful if there was a link between the two.
- Investment Management Expenses – the Auditor explained that the FCA was encouraging disclosure of 'hidden' fees. This information was not requested from fund managers this year but the Financial Services Director would write to Fund Managers again in time for next year. The Auditor confirmed that this omission would not be classified as a disclosure deficiency.
- Accounting Policies – there had been no accrual for Fund Manager Fees in relation to private equity holdings and, whilst this was not material, requesting the information from the managers and accruing for the final months of the year should be considered in the future.
- National Fraud Initiative – final checks were being made into the timely processing of death certificates.
- Fair Value of Private Equity – a net reduction of £198,000 would be adjusted in the final version of the financial statements.

In concluding, Members thanked the Chamberlain and the Auditors for a fresh perspective on the accounts which had highlighted some different issues.

RESOLVED, that:

1. Having considered the contents of BDO's progress reports, the approval of the City Fund and Pension Fund Financial Statements, for the year ended 31 March 2016, be recommended to the Finance Committee.
2. Authority be delegated to the Town Clerk, in consultation with the Chairman and Deputy Chairman of the Audit and Risk Management Committee, for the approval of any material changes to the financial statements required before the signing of the audit opinion by BDO, which is expected to be by the end of August or early September 2016.

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

There were no questions.

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

There were no items of urgent business.

**The meeting ended at 11.40 am**

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Chairman

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