

AUDIT AND RISK MANAGEMENT COMMITTEE

Monday, 16 January 2023

Minutes of the meeting of the Audit and Risk Management Committee held at Guildhall, EC2 on Monday, 16 January 2023 at 10.00 am

Present

Members:

Alderman Alexander Barr (Chair)
Alderman Prem Goyal (Deputy Chairman)
Deputy Rehana Ameer
Deputy Randall Anderson
Paul Martinelli
Alderman Bronek Masojada
Karen Sanderson (External Member)

Officers:

Caroline Al-Beyerty	- Chamberlain's Department
Matthew Lock	- Chamberlain's Department
Karen Atkinson	- Chamberlain's Department
Dionne Corradine	- Town Clerk's Department
Neilesh Kakad	- Chamberlain's Department
Julia Megone	- Chamberlain's Department
Kehinde Haastrup-Olagunju jnr	- Town Clerk's Department
Frank Marchionne	- Comptroller and City Solicitor's Department
Nathan Omane	- Chamberlain's Department
Tabitha Swann	- Town Clerk's Department
Tatianna Wanyanga	- Town Clerk's Department

Also in attendance

Tina Allison	Crowe (External Auditors)
James Hay	Crowe (External Auditors)
Paul Dossett	Grant Thornton (External Auditors)
Sophia Brown	Grant Thornton (External Auditors)

1. APOLOGIES

Apologies for absence were received from Deputy Christopher Boden, Gail Le Coz (Deputy Chair), Judith Pleasance, Ruby Sayed, Naresh Sonpar and Dan Worsley.

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

In reply to a question from a Member, the Chamberlain confirmed that the Committee would be informed of any changes to the accounts.

The public minutes and non-public summary of the meeting held on 22 November were approved as a correct record.

4. OUTSTANDING ACTIONS OF THE COMMITTEE

A Member asked if officers were content with the progression of the closed action. The Head of Internal Audit responded that this had been based on the best information available at the time. The Chamberlain provided an update to say that there had been a meeting between the various funding partners which had gone well. The Member said that they were happy with the direction of travel, but felt that the Committee should have been informed of the change in circumstances. The Chairman agreed and asked officers to take this away for the future.

5. TERMS OF REFERENCE REVIEW

Members received a report of the Town Clerk relative to the Annual Terms of Reference review.

A Member said that they would like to see an overarching statement included in the terms of reference to explain the purpose of the Committee. The Chairman asked the Committee to grant delegated authority so that this matter could be pursued.

A Member said that the proposed revisions to the terms of reference did not mention an annual Internal Audit Plan. She felt that while the Committee receives reports, seeing a plan would help Members assurance on the level of Internal Audit activity over the year. She wondered whether this was something that could also be included in the terms of reference. In reply, the Head of Internal Audit said that the Internal Audit team no longer worked to an annual plan, and was adopting a more agile and iterative approach, with a rolling programme of work. He added that peers in other organisations were also taking this approach. The Chairman asked if it would be possible to add a reference to this iterative programme of work within the terms of reference.

A Member cautioned that it was important that the terms of reference did not become too prescriptive. While it was important to be clear that the Committee's remit meant that it oversaw internal audit, it was not necessary to 'lock in' the methods of doing this.

A Member said that it was important that the Committee ensured that, at a macro level, risks across the organisation were looked at on a regular cycle, while retaining time for ad-hoc activity. They felt this was hard to do if there was not a plan in place. They would like to see a plan that included both.

The Chamberlain said there were two issues being discussed: the responsibility of Committee members under the Committee's terms of reference, and the methods by which the Head of Internal Audit discharged their duty. She said that part of the latter was to provide the Chamberlain and the Committee with assurance that the City Corporation had robust systems of financial control.

She suggested that the terms of reference could include a reference to the Committee's assurance on the robustness of planning. With regards to work planning, the Chamberlain said that an agile audit plan would be a key strength in providing this assurance. While it was important that Internal Audit did look at all systems within the organisation, there were more nuanced risks which would need to be picked up as and when. Members agreed that it was appropriate for the Committee to receive high level assurance rather than the operational details of Internal Audit's work.

A Member asked how the Committee would receive assurance about the level of coverage over a period of time. The Head of Internal Audit replied that detailed plans for the Committee could prove restrictive, and that it might be better to provide the committee with an outline of the broad areas on which Internal Audit would be providing assurances. The Chairman requested the Head of Internal Audit to consider how this could be included in the terms of reference, and asked that it should be circulated to all Members as part of the delegated authority agreement.

The Bridge House Estates and Charities Finance Director confirmed for Members the current process by which the Bridge House Estates Board had a reference in place with the Audit and Risk Management Committee, which requested that the latter Committee review the Bridge House Estates Annual Report and provide comment to the Board, as was included as a later agenda item.

RESOLVED, that – Members:

- approve the revisions to:
 - The Committee's terms of reference as shown in Appendix 1, and recommend the revisions to the Policy and Resources Committee, for onward submission to the Court;
 - The Committee workplan as shown in Appendix 2, and the cycle of meetings; and
 - The role of the Nominations Sub Committee and its terms of reference, as shown in Appendix 3.
- Delegate authority to the Town Clerk, in consultation with the Chairman and Deputy Chairman, to approve any further changes to the terms of reference in advance of its submission to the Policy and Resources Committee.

6. **2021-22 CITY'S CASH FINANCIAL STATEMENTS**

Members received a report of the Chamberlain relative to the City's Cash financial statements for 2021-22.

The Chamberlain introduced the report, and Members noted the following points:

- There were no significant matters arising from the audit report.

- There were some outstanding queries which the Chamberlain and Crowe were working on
- The financial statements had been delivered one month late. A constructive meeting had been held with Crowe on how to resolve this issue going forward.

A Member said that the statements showed that the City Corporation ran a consistent operating deficit, with a reliance on increased value in capital to remain solvent. They asked if this was a sustainable way to run the organisation. The City Corporation had historically aimed for to break even in income and expenditure, but the significant amount of spend required for the Markets Co-Location Programme and the enabling works required as part of City Corporation's landlord responsibilities for the Museum of London project needed to be drawn down from the balance sheet. The Chamberlain considered this to be a reasonable action when viewed as a going concern. The Finance Committee had responsibility for this strategy, and considered it closely along with the Policy and Resources Committee. The Chamberlain undertook to circulate a paper to that had gone to Policy and Resources in October 2022 which provided an assessment of the affordability of major projects. The Chamberlain said that she felt the most prudent position had been taken.

A Member asked if the risks surrounding this approach were present on the risk register. A Member, also the Deputy Chairman of the Finance Committee, said that the risk was covered by CR35 City Cash. They felt that some reasonably prudent use of capital for expenditure was acceptable, but it was important to remember that there were limits and that the City's finances were in the middle of a pivot from assets providing reasonable returns, to the assets with less predictable returns. They felt that it was important to focus on the serious risk that this created.

The Chairman said that it was likely that the period of extraordinary financial returns was probably coming to an end, and that the risks around City's Cash had not been historically recognised in this context. The Chamberlain replied that the strong performance of the City Corporation's balance sheet provided a starting point for the affordability for the capital spend. It was important to consider how much could be appropriately drawn down, and what it should be used for. For example, the City Corporation had an aging estate which required essential maintenance work, where it would be more expensive in the long run to not spend anything now. The Chamberlain had previously flagged the need for the Court to consider how many years it would take to return to a break even position on City's Cash, which had helped inform the Court's decision in March 2022 to take a medium to long-term view on the finances.

Members noted the highlights of the report from the External Auditors.

The Chairman asked the External Auditors if they were comfortable with the processes surrounding the management override of controls. In reply, officers from Crowe said that they had found the right behaviours in this area.

The Chairman said that it was disappointing to see that several Members of the Court had not completed their related parties declarations. The Chamberlain agreed, and said that there had been IT issues when the request to submit these had gone out to Members. She said it would be helpful to have the backing of the Chairman and the Committee to help encourage Members to complete these. A Member asked if co-opted Members to Committees should also be recorded. The Chamberlain undertook to look into this and provide an answer.

A Member asked why it was not possible to identify the assets and liabilities in the teachers pension scheme. The Chamberlain replied that it was not a scheme administered by the City Corporation.

A Member asked for further information about the resourcing issues in the Chamberlain's Department. The Chamberlain replied that the Department had been a victim of its own success, as accountants within Corporate Accounting had progressed to positions elsewhere in the organisation. This required external recruitment to fill the vacancies. While half of the senior vacancies had been filled, the City Corporation faced a competitive jobs market in this area. Recent departures had pushed the Finance Team into the red risk on knowledge retention, but interim arrangements had been established and supplier expertise brought in.

RESOLVED, that – Members:

- Note that the external auditor Crowe UK LLP intends to give an unqualified audit opinion for both City's Cash and the 10 consolidated charities' individual financial statements;
- Note the contents of the Audit Management Report issued by Crowe UK LLP ; and
- Recommend approval of the 2021/22 City's Cash Financial Statements, and the financial statements of each of the 10 consolidated charities, for the year ended 31 March 2022 to Finance Committee.

7. BRIDGE HOUSE ESTATES ANNUAL REPORT AND FINANCIAL STATEMENTS 2021/22

Members received a Joint Report of the Bridge House Estates (BHE) & Charities Finance Director (representing The Chamberlain) and the Managing Director, Bridge House Estates relative to the Bridge House Estates Annual Report and Financial Statements for 2021-22.

The BHE & Charities Finance Director reminded Members of the standing reference made to the Audit and Risk Management Committee by the BHE Board to review and recommend the BHE Annual Report and Financial Statements.

Members noted the highlights from the report.

The Chairman asked if BHE was spending more than its income or if it was using its capital appreciation. In reply, the BHE & Charities Finance Director said that the returns BHE received on its financial investments were not split between income and capital growth, with the overall return being added to the balance sheet value of these investments as a result. The financial investments that BHE held were mainly backing its income reserves, the full value of which were available for BHE to spend in line with Charity Commission requirements to utilise income reserves. The current basis on which BHE held investments to support its endowment fund meant that it could not access that capital growth. However, BHE was currently in the final stages of receiving approval to its Supplemental Royal Charter, which would grant it a new power to enable it to access the latter funds. A policy on this will be presented to the BHE Board and the Court of Common Council for approval.

The Chairman said that he would have liked to have seen greater emphasis in the report on the uniqueness of BHE as a charity, and that it is a top ten UK charity by asset value. The BHE & Charities Finance Director responded to say that being in the top ten was not an aim or objective of BHE. She added that BHE's value would reduce as it made further grant commitments. A Member said that while the exact ranking did not matter, it was a way of communicating the size of the charity to outsiders and benchmarking it against other charities. The Chamberlain added that there were different metrics on which BHE's size could be measured. A Member, also Deputy Chairman of the BHE Board, said that he would take the concerns of the Audit and Risk Management Committee back to the BHE Board.

A Member asked if there was any work of BHE that had any impact on or relationship with the Destination City programme. The BHE & Charities Finance Director replied that Tower Bridge had been heavily involved with the Golden Key launch event for Destination City. However, Destination City as a programme did not specifically fit with the objects of BHE, though there may be some areas where the two could work together.

The External Auditors provided Members with an oversight of their work with BHE. It was noted that they had not found any issues.

RESOLVED, that – Members:

- Consider the contents of the audit management report issued by Crowe;
- Recommend approval of the BHE Annual Report and Financial Statements for the year ended 31 March 2022 to the BHE Board; and
- Authorise the Managing Director of BHE and the BHE and Charities Finance Director (representing the Chamberlain), in consultation with the Chair and Deputy Chair of the BHE Board, to approval of any material change to the financial statements required before the signing of the audit opinion by Crowe.

8. SUNDRY TRUSTS ANNUAL REPORT AND FINANCIAL STATEMENTS 2021/22

Members received a report of the Bridge House Estates and Charities Finance Director (representing the Chamberlain) relative to the Sundry Trusts Annual Report and Financial Statements 2021/22.

RESOLVED, that – Members:

- i. Consider the contents of the audit management report issued by Crowe LLP;
- ii. Note that the external auditor Crowe LLP is anticipating giving an unqualified audit opinion on 2 sets of audited charity annual reports, and that work has not yet commenced on 2 others which will be brought for approval separately;
- iii. Note that the independent examiner Crowe LLP is anticipating giving an unmodified report for the 7 sets of independently examined charity annual reports;
- iv. Note for information the 3 of the 4 sets of annual reports which are no longer subject to audit and independent examination, with the fourth set being brought separately for approval due to delays in preparation; and
- v. Recommend approval of the annual reports of the 12 charities presented for the year ended 31 March 2022, to the Finance Committee for those charities where the Corporation is Trustee; to the Aldermen for the Emmanuel Hospital charity where the Corporation is acting by the Court of Aldermen as the named corporate trustee; and to the individual trustees of the Sir William Coxen Trust Fund and the Samuel Wilson Loan Charity.

9. **CITY FUND AUDIT PROGRESS REPORT AND SECTOR UPDATE**

Members received a report of the External Auditors (Grant Thornton) providing an audit progress report and sector update.

A Member asked if there had been any changes from the approach of the previous External Auditors, and how they intended to use work undertaken by the Internal Audit team. In reply, officers from Grant Thornton said that the significant areas they were looking at were probably similar to those that had been considered by the previous auditor, though some of the methods may vary. They were working carefully with the Internal Audit team to outline their requirements and the nature of their requests. Grant Thornton did not specifically rely on Internal Audit's work, but did review that team's work to inform their risk assessment and planning.

RESOLVED, that – the report be received and its contents noted.

10. **CITY OF LONDON CORPORATION - CITY FUND AUDIT PLAN**

Members received a report of the External Auditors (Grant Thornton) relative to the City Fund audit plan.

The Chairman asked how prevalent fraud at this level was for local authority schemes. In reply, officers from Grant Thornton said that there were two types of fraud: extraction fraud and expenditure fraud. The former, where an individual would defraud the local authority for personal gain, was fairly common but the material scale was relatively low. In contrast, fraudulent recognition of expenditure and manipulation of financial position was unusual in a local authority context, as the nature of their funding and the available

reserves meant that slight variances in budget spending were generally not an issue as long as the reserves remained strong. When it was seen, it was normally in local authorities whose reserves were running down. They would not expect to see it in a local authority, and did not expect to see it at the City Corporation.

RESOLVED, that – the report be received and its contents noted.

11. CITY OF LONDON PENSION FUND - AUDIT PLAN

Members received a report of the External Auditors (Grant Thornton) relative to the City of London Pension Fund audit plan.

RESOLVED, that – the report be received and its contents noted.

12. INTERNAL AUDIT UPDATE

Members received a report of the Chamberlain providing an update on Internal Audit activity.

A Member asked for clarification on what was meant by 'follow-up outcomes in period' on the Internal Audit Dashboard. The Head of Internal Audit said that it related to recommendations on which the Internal Audit team had undertaken follow-up work, and the outcome of testing. They said they could explore methods of sharing the detail of the recommendations with the Committee, perhaps by raising exceptional recommends or areas where they felt it was necessary for the Committee to be alerted. The Member felt that it would be most appropriate for the Committee to be informed on exceptional items.

A Member asked if the Committee would see any summary of what Internal Audit had covered in the year so far, so it could see the bigger picture of the work. In reply, the Head of Internal Audit said that their Annual Report to the Committee would include a 'backward look' of the work done in the year, and undertook to consider how this could be done on a cumulative basis.

A Member asked how long the red recommendations had been outstanding, and if there were any concerns on addressing them. The Head of Internal Audit undertook to address this in his next update to the Committee.

The Chairman asked how the Head of Internal Audit was able to retain a holistic perspective on the overall work of his team. He replied that the report updates he provided to the Committee allowed him a regular chance to assess the work.

The Chairman asked the Head of Internal Audit if they felt there had been a marked change in corporate culture over the last few years in officers receptiveness to the work of Internal Audit. In reply, the Head of Internal Audit said that they felt there was a strong working relationship with colleagues across the organisation. Taking forward an audit review was generally received well. Findings from audit reviews could be challenged and there was sometimes defensiveness from management; this was partly due to the robust nature of their reports. They had never had to escalate an issue around

engagement. The Chief Strategy Officer added that they had raised the point on the difference between healthy challenge and constructive dialogue versus unhelpful challenge at the Executive Leadership Board so they could reinforce this distinction with Officers.

RESOLVED, that – the outcomes of the completed Internal Audit work are noted.

13. **RISK MANAGEMENT UPDATE**

Members received a report of the Chief Strategy Officer providing an update on the corporate and top red departmental risk registers.

Members noted that the adverse political development risk had changed, and that this would be picked up at the next Chief Officer Risk Management Group meeting, with the risk owners to return to the next Committee meeting. The Chairman said that was not convinced that the target risk was truly effective considering the political climate and the general election due in 2024, and felt it was worth further examination.

A Member asked if the new departmental risk BBC Buildings 020 LTHW Pumps should be considered for upgrade to the corporate risk register, given the large financial and reputational risk to the City Corporation and the Barbican Centre if the pumps failed. Officers undertook to investigate and return to the Committee.

At the request of the Chairman, officers undertook to look into whether there should be greater commonality between the departmental risks for the three private schools.

RESOLVED, that – Members note:

- The report and the corporate and top red departmental risk registers outlined in this report.
- The changes to the corporate and the top red departmental risk registers, including:
 - CR10 Adverse Political Developments current risk score has decreased from Amber 12 to Amber 8 (4x2 - impact major, likelihood unlikely). The total number of corporate risks has remained at 14.
 - One risk (BBC Buildings 020 LTHW) has been added to and one risk (COO-MKT-WM 004 Wholesale Markets Traffic Management) de-escalated from the red departmental register. The total number of red departmental risks has therefore remained at 24.
- Following discussion at the Committee meeting in November:
 - Table 3 in this paper now shows risk creation dates and the date risks went onto the corporate risk register as additional background.

- Work on a new 'people' recruitment and retention risk is continuing and will be taken to the next Chief Officer Risk Management Group for review.

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

There were no questions.

15. ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT

There were no items of other business.

16. EXCLUSION OF THE PUBLIC

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

17. NON-PUBLIC MINUTES OF THE PREVIOUS MEETING

The non-public minutes of the meeting held on 22 November 2022 were approved as a correct record.

18. ESTABLISHING A CHARITY RISK MANAGEMENT PROTOCOL

Members received a report of the Managing Director of Bridge House Estates relative to the Charity Risk Management Protocol.

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

There were no questions in the non-public session.

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

There was no items of other business in the non-public session.

The meeting ended at 11.48 am

Chairman

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