



Audit and Risk Management Committee

Date: WEDNESDAY, 11 DECEMBER 2013

Time: 1.45pm

Venue: COMMITTEE ROOM - 2ND FLOOR WEST WING, GUILDHALL

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

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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. **MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**
3. **MINUTES OF THE PREVIOUS MEETING**
To agree the public minutes and non-public summary of the meeting held on 15 October 2013

For Decision
(Pages 1 - 6)
4. **OUTSTANDING ACTIONS OF THE COMMITTEE**
Report of the Town Clerk

For Information
(Pages 7 - 8)
5. **STRATEGIC RISK 3: FINANCIAL STABILITY, AND STRATEGIC RISK 14: LONGER TERM FINANCIAL UNCERTAINTY**
Report of the Chamberlain

For Information
(Pages 9 - 18)
6. **DELOITTE'S ANNUAL AUDIT LETTER ON THE CITY FUND AND PENSION FUND FINANCIAL STATEMENT**
Report of the External Auditor

For Information
(Pages 19 - 46)
7. **ANTI FRAUD AND INVESTIGATION UPDATE REPORT**
Report of the Chamberlain

For Decision
(Pages 47 - 72)
8. **THE CARE QUALITY COMMISSION (CQC) UNANNOUNCED ROUTINE INSPECTION OF THE ADULT SOCIAL CARE REABLEMENT SERVICE**
Report of the Director of Community and Children's Services

For Information
(Pages 73 - 92)
9. **INDEPENDENT REVIEW OF RISK MANAGEMENT - DEVELOPMENT AND IMPLEMENTATION OF ACTION PLAN**
Report of the Chamberlain

For Information
(Pages 93 - 102)

10. **INTERNAL AUDIT UPDATE REPORT**
Report of the Chamberlain

For Information
(Pages 103 - 122)
11. **INTERNAL AUDIT RECOMMENDATIONS FOLLOW-UP REPORT**
Report of the Chamberlain

For Information
(Pages 123 - 134)
12. **AUDIT AND RISK MANAGEMENT COMMITTEE'S TERMS OF REFERENCE**
Report of the Town Clerk

For Decision
(Pages 135 - 138)
13. **COMMITTEE WORK PROGRAMME**
Report of the Town Clerk

For Information
(Pages 139 - 140)
14. **DECISIONS TAKEN UNDER DELEGATED AUTHORITY/URGENCY**
Report of the Town Clerk

For Information
(Pages 141 - 142)
15. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
16. **ANY OTHER BUSINESS WHICH THE CHAIRMAN CONSIDERS URGENT**
17. **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

18. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**
To agree the Non-Public minutes of the meeting held on 15 October 2013.

For Decision
(Pages 143 - 144)

19. **APPOINTMENT OF EXTERNAL MEMBERS OF THE AUDIT AND RISK
MANAGEMENT COMMITTEE**

Report of the Town Clerk

For Decision
(Pages 145 - 158)

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

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

Part 3 - Confidential Agenda

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

Report of the Chamberlain

For Information
(Pages 159 - 184)

Agenda Item 3

AUDIT AND RISK MANAGEMENT COMMITTEE

Tuesday, 15 October 2013

Minutes of the meeting of the Audit and Risk Management Committee held at Guildhall on Tuesday, 15 October 2013 at 1.45pm

Present

Members:

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

In Attendance:

Mark Boleat	Chairman of Policy & Resources Committee (for item 8-10)
Deputy Michael Welbank	Chairman of Planning & Transportation Committee (for item 11)
Philip Coley	Zurich (for item 8)
Victoria Bales	Zurich (for item 8)
Stephen Craig	Deloitte
Adrian Brook	Moore Stephens

Officers:

Susan Attard	Town Clerk's Department
Neil Davies	Town Clerk's Department
Julie Mayer	Town Clerk's Department
Michael Cogher	Comptroller and City Solicitor
Caroline Al-Beyerty	Chamberlain's Department
Paul Nagle	Chamberlain's Department
Steve Telling	Chamberlain's Department
Suzanne Jones	Chamberlain's Department
Paul Double	Remembrancer
Nigel Lefton	Remembrancer's Department
Philip Everett	Director of the Built Environment

1. APOLOGIES

Apologies were received from Deputy Robin Eve; Dr Martin Dudley; Oliver Lodge and Ray Catt.

2. DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA

The Chairman declared an interest in respect of agenda item 7 (City's Cash Financial Statements 2012/13 – subject to Audit) by virtue of his position as a Senior Adviser to PWC, who had advised the City on some taxation matters.

3. **MINUTES OF THE PREVIOUS MEETING**

The public minutes and summary of the meeting held on 17 September were approved as a correct record.

4. **OUTSTANDING ACTIONS OF THE COMMITTEE**

The Committee noted the following items, which would be discharged on this agenda:

- Planning Governance (agenda item 11)
- Publication of City's Cash (agenda item 7)

At the last meeting, the Chairman asked for further information on the low response rate to the on-line fraud awareness course. Members noted that the current estimated average completion rate was 60%, varied across departments. The Head of Internal Audit and Risk Management advised that there had been some data quality issues, but they were being addressed in order to allow a targeted follow up. Members were also re-assured that data quality of all systems and databases were scrutinised regularly as part of Internal Audit's workplan. This particular issue had been local to the 'corezone' on-line learning system, which relied on self-enrolment.

Members were concerned that the completion rate was unacceptable, given the course was mandatory and the deadline had passed on 1 October 2013. Members also suggested that those departments with the lowest response rates should be accountable to the Audit and Risk Management Committee. The Chairman asked for a breakdown of response rates, by Department, and sight of correspondence, from the Town Clerk, to low performing departments.

5. **STRATEGIC REVIEW 8 - MANAGING THE CITY OF LONDON CORPORATION'S REPUTATION**

The Committee considered a report of the Director of Public Relations, which set out briefly the background to the management of this risk. The Chairman asked members to consider this item alongside Strategic Risk 10 (Adverse Political Developments) which appeared next on the agenda.

The Chairman of Policy and Resources was in attendance and confirmed that the City was in a good place and well equipped to deal with emerging issues. In response to a question about the publication of City's Cash (at agenda item 7), the Chairman said that the City had not published anything that had not been publicly available previously, but acknowledged that the adjustments on the balance sheet were new.

RESOLVED – that:

The content of the report be endorsed.

6. **STRATEGIC REVIEW 10 - ADVERSE POLITICAL DEVELOPMENTS**

The Committee considered a report of the Remembrancer and noted how this risk encompassed a wide range of risks, including changes in neighbouring boroughs, London and national government and the general political climate. The Chairman of Policy and Resources was pleased to advise members that, following his attendance at the recent party conferences, it was evident that the work of the City was highly regarded.

RESOLVED – that:

The content of the report be endorsed.

7. **CITY'S CASH FINANCIAL STATEMENTS 2012/13 - SUBJECT TO AUDIT**

The Committee considered a report of the Chamberlain which set out the Draft City's Cash Financial Statements for the year ended 31 March 2013. Members noted that they had been prepared, for the first time, on the basis of United Kingdom Generally Accepted Accounting Practice (UKGAAP). Therefore, the format and content varied significantly from the previous method of preparation, namely a modified version of the Charities Statement of Recommended Practice. The Auditors, Deloitte, were in attendance and confirmed that their review was nearing completion and anticipated being able to issue an unqualified opinion on a true and fair set of accounts. The Financial Services Director thanked Deloitte for their constructive approach to the accounts and commended the hard work of the Chamberlain's staff.

The Director, then, reported on the briefing sessions with members, which had been very useful and would add value to the final draft of the statements.

RESOLVED – that:

1. The content of Deloitte's management letter be considered and noted.
2. Authority be delegated to the Town Clerk, in consultation with the Chairman and Deputy Chairman, to approve the final audited version of the financial statements and recommend them to the Finance Committee.

8. **INDEPENDENT REVIEW OF RISK MANAGEMENT**

The Committee welcomed Philip Coley and Victoria Bales of Zurich, who had conducted the Independent Review. Members noted that, since the introduction of a corporate risk management approach, good progress had been made and a sound basis existed for an effective framework. All the recommendations from the review had been accepted and an action plan was being prepared, assisted by Zurich. In response to questions, Mr Coley advised that improvements should be implemented over the next 6 months and officers accepted this timeframe. Members noted that a management improvement plan would be presented to the Chief Officer's Group on 27th November, before being presented to the Audit and Risk Management Committee on 11th December 2013.

In response to questions, the Business Support Director advised that, whilst all departments have risk registers, they are currently produced and stored as word documents. Officers would be investigating more sophisticated software, which should improve data management and drive behaviours.

RESOLVED – that:

The Independent Review of Risk Management be received.

9. INTERNAL AUDIT PLANNING 2014/15

The Committee received a report of the Chamberlain, which provided members 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.

Members highlighted the following further issues during the meeting:

- Post-implementation reviews
- The timing of any deferred audits
- Compliance and financial regularity

The Head of Audit and Risk Management asked for further suggestions over the next 2/3 weeks. The Town Clerk would remind members and include those who had submitted apologies for this meeting.

10. INTERNAL AUDIT CHARTER

The Committee considered the Draft Audit Charter and members commended a good report, which could provide an effective induction for new members. Members suggested that it would be helpful if the document referred to audit tracking and that the Charter be reviewed every 12 months.

RESOLVED – that:

The Draft Audit Charter, as set out in the Appendix to the report, be approved, subject to the above suggestions.

11. PLANNING GOVERNANCE REVIEW

At its meeting of 5 March 2013, the Audit and Risk Management Committee agreed to undertake a review of the Director of the Built Environment's new processes and procedures, after their first year of operation. Members also agreed that the review should 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. The Deputy Town Clerk presented the report and the Chairman of the Planning Committee, the Comptroller and City Solicitor and the Director of the Built Environment were in attendance to give their perspective and take questions.

The Director of the Built Environment advised members that pre-application meetings had now been formalised and had been working well for the past 18

months. Members noted that, whilst the onus was on developers to consult, advice had been included in supplementary planning guidance. The Director had been in post for 2 and a half years and had a highly skilled team of planning officers, both technically and in serving communities. The team already provided a high quality service, but that did not mean there was no room for improvement

The Chairman of Planning endorsed this view and asked members to be mindful of the opportunities created by the current appetite for consultations, particularly on developments and as a result of social media. He advised members that speakers at the City of London's Planning and Transportation Committee were given more time than many other local authorities in the UK. Members were also asked to note recent correspondence from the Barbican Association. Following a meeting between residents and the Director and his senior planning officers, they had been invited to comment on how they would like developers to consult with them. The Director was happy to follow this up.

The Comptroller and City Solicitor confirmed that the processes were legally sound but, given the adversarial nature of planning applications, there would always be some degree of dissatisfaction.

Alderman Anstee, who had pressed for a review, advised the Committee that, whilst he welcomed its conclusion, its credibility had been undermined by the fact that some of the issues minuted on 5 February had not been addressed. He stated that officers had failed to involve him in the review as he expected. Whilst not making a judgement on current culture and behaviour, and acknowledging that considerable improvements had been made, Alderman Anstee believed that the culture of the planning department had needed to change and he felt that the report should have highlighted why this had been necessary. However, Alderman Anstee had been very reassured by the Director's explanation; the way in which he had set out the changes he had implemented enhanced the content of the report.

In concluding, the Chairman thanked Alderman Anstee for being instrumental in initiating the review. He said that, in his view, members' primary duty was to hold officers to account, acting always in the public interest. Given the outcome of the review, the Audit and Risk Management Committee agreed that the review, from this Committee's perspective, could now be closed; nonetheless, the expectation should be that the Planning and Transportation Committee should always look for continuing opportunities for improvements.

12. **COMMITTEE WORK PROGRAMME**

The Committee received its workplan to the end of 2014 and noted the following changes since the last meeting:

- December's meeting would receive Strategic Risk 3 (Financial Stability) and Strategic Risk 14 (Longer Term Financial Viability), as they were relevant to the other items on this agenda.

- January's meeting had two new items – the Internal Audit Customer Satisfaction Review and the CQC Inspection Report on re-ablement services in the Community and Children's Services Directorate

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

There were no questions

14. ANY OTHER BUSINESS WHICH THE CHAIRMAN CONSIDERS URGENT

There were no items of urgent business

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 schedule 12A of the Local Government Act.

Item	paragraph no
18-19	3
20	-
21	1,2 & 7

At 3.45 pm, members agreed to suspend standing orders in order to conclude the business on the agenda

18. UPDATE ON CROSSRAIL COMMITMENTS

The Committee received a report of the Chamberlain.

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

The Chairman agreed to receive an item of urgent business, which provided background information to agenda item 7 (City's Cash Financial Statement 2012/13 – subject to Audit).

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

There were no questions.

21. CONFIDENTIAL MINUTES OF THE PREVIOUS MEETING

The confidential minutes of the meeting held on 17 September 2013 were approved as a correct record.

The meeting ended at 4.00pm

Chairman

AUDIT AND RISK MANAGEMENT COMMITTEE - Outstanding Actions

Item	Action	Officer responsible	Progress updates/target
Risk Management Improvement Plan	<ul style="list-style-type: none"> • Review the language within risk guidance to avoid using terms with negative connotations. • Action Plan from the Independent Review of Risk Management 	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	<ul style="list-style-type: none"> • For Chief Officer appraisals, held in April/May each year, the Corporate Performance and Development Team will gather information from Internal Audit relating to the whole of the financial year being reviewed, and provide that to the Town Clerk. • The Corporate Performance and Development Team also contact Internal Audit prior to every Chief Officer Performance Improvement Meeting (with the Deputy Town Clerk) to gather the most up-to-date information on un-implemented recommendations, and other relevant issues. After each meeting, feedback is provided to Internal Audit.
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, 'lessons learnt' in terms of audit and risk processes, will be considered.
Cash Handling and Banking Audit	The Committee would received an update in September	Paul Nagle	Members will receive a full update in December with action plans for agreed recommendations.

AUDIT AND RISK MANAGEMENT COMMITTEE - Outstanding Actions

Publication of City's Cash	<ul style="list-style-type: none"> • Circulate Q&A briefing to all members of the Audit and Risk Management Committee. Suggestions from Members to be added to the Finance Committee's Action list. • Update on Crossrail for members before the end of the year. • Deloitte to revise wording to reflect the current position 	<p>Julie Mayer</p> <p>Caroline Al-Beyerty/Town Clerk</p> <p>Caroline Al-Beyerty/Steve Telling</p>	<p>Circulated 16/10</p> <p>Expected before the end of 2013</p> <p>COMPLETED</p>
Agenda Management	<p>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.</p>	<p>All to note/action</p>	<p>On-going</p>
Internal Audit Satisfaction Review	<ol style="list-style-type: none"> 1. The review had resulted in an action list, which will be reported to the Committee in January 2014. 2. The exercise to be repeated with a different set of Chief Officers. 	<p>Paul Nagle/Suzanne Jones</p>	<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 on line training course	<p>The Chairman asked for a breakdown of response rates, by Department, and sight of any correspondence, from the Town Clerk, to low performing departments.</p>	<p>Paul Nagle</p>	<p>Completion rates and Correspondence provided to Chairman. Action plan prepared and in progress. Further update to the December Committee</p>
Internal Audit Charter	<p>Members suggested that it would be helpful if the document referred to audit tracking and that the Charter be reviewed every 12 months.</p>	<p>Paul Nagle</p>	<p>Once noted, can be removed from list</p>

Agenda Item 5

,Committee(s):	Date(s):
Audit and Risk Management Committee	11 th December 2013
Subject: Strategic Risk 3: Financial Stability, and Strategic Risk 14: Longer Term Financial Uncertainty	Public
Report of: Chamberlain	For Information
<p>Summary</p> <p>This report explains the changes to Strategic Risk (SR) 3: Financial Stability and SR14: Longer Term Financial Uncertainty.</p> <p>SR 14 formerly covered the risks relating to the funding uncertainty beyond the current spending review period ending in 2014/15; but, as time has moved on, we have more certainty over the level of reductions in 2014/15 and 2015/16 and a clearer view of more cuts to come in 2016/17 and 2017/18 (notwithstanding the General Election).</p> <p>SR 3, therefore, covers the 'known' reductions up to 2015/16 and SR 14 covers the likely reductions over the remaining part of the planning horizon.</p> <p>SR3: The financial settlement for 2015/16 is worse than originally anticipated by the Local Government finance community and we estimate the impact will make a further dent of £2.7m p.a in our 2015/16 forecast, increasing the deficit forecast for that year to £5.6m. We have currently identified some efficiency savings to meet this gap, but this still leaves a potential gap of between £1.1m-£3.6m if we are to achieve a balanced budget on the City Fund in 2015/16.</p> <p>However, as this deficit is covered by reserves, the net risk assessment is amber; assuming savings are identified and once they have been removed from budgets in the autumn of 2014, the risk can be expected to drop to green.</p> <p>SR14: The position for non-protected services from 2016/17 looks to be difficult, with potentially £13m p.a. savings to be found in City Fund - which will need to be addressed through savings being identified in the service based review.</p> <p>Again, the risk remains red until savings options have been identified.</p> <p>Recommendations</p> <p>Members are asked endorse the recommendations in the report.</p>	

Main Report

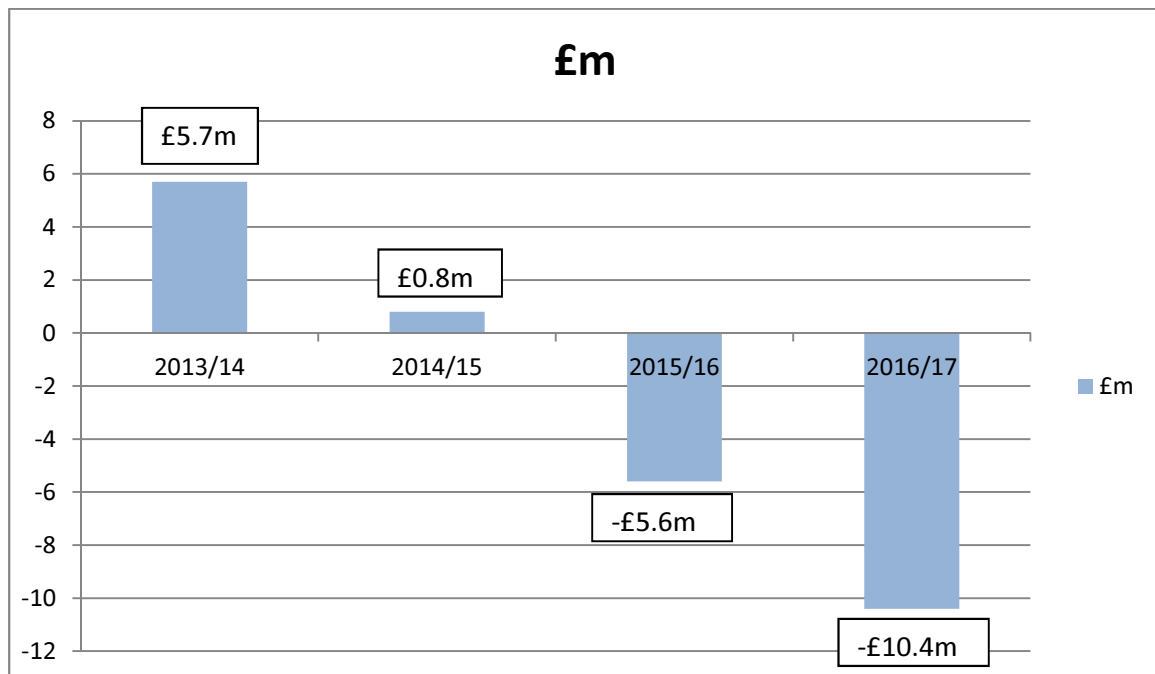
Background

1. At the time the Spending Review was announced, the 2015/16 grant reduction was headlined as 10% (8.2% in cash terms). Over the summer, DCLG issued a technical consultation on the forthcoming finance settlement for 2014/15 and 2015/16. Now we have seen the detail, the real reduction is 15.5%, translating to a loss in the Settlement Funding Assessment of £2.7m p.a. and increasing the City Fund deficit for 2015/16 to £5.6m.
2. The position for non-protected services from 2016/17 looks to be difficult, with another £25 billion worth of cuts pencilled in for the two years after 2015-16. The Future Funding Outlook report, launched at Local Government Association (LGA) conference in July, used a central assumption of an 8% (cash) cut in 2016/17, and a 7% cut each year thereafter. However, there is a risk that the actual reductions could be higher as the above percentages refer to the Settlement Funding Assessment (SFA). There are two elements to the SFA- the retained business rates element and the Revenue Support Grant (RSG). The percentage cut to RSG will be much greater because retained business rates element of SFA funding increases with RPI, so the entire cut must be taken from RSG. It is worth noting that the LGA's reduction assumptions are consistent with the 15% forecast by the Institute for Fiscal Studies.
3. SR 14 formerly covered the risks relating to the funding uncertainty beyond the current spending review period, ending in 2014/15. As time has moved on, we have more certainty over the level of reductions in 2014/15 and 2015/16 and a clearer view of more cuts to come in 2016/17 and 2017/18 (notwithstanding the General Election).
4. SR 3, therefore, covers the known reductions up to 2015/16; and SR 14 covers the likely reductions over the remaining part of the planning horizon.
5. The impact of the likely reductions will be included in our financial planning process during the autumn and will need to be mitigated by potential savings verified during the service based review.
6. The service based review is currently in progress so that, in due course, Members will be able to reduce budgets to the level indicated by the savings target (now £13m) based on either:
 - efficiencies: by identifying areas of spend, or ways of working, which are not optimal and where savings can, therefore, be made with little impact on services; or
 - statutory need: by identifying the necessary level of spend required to meet statutory requirements for the provision of a service, and where savings can be made from reducing budgets which are in excess of this level.

7. At the same time, work is being undertaken to identify options from which members might choose to assist in meeting the savings target based:
 - On policy grounds: by identifying those areas of service which do not meet current and future policy objectives and where services might be reduced, provided at nil net cost, or possibly be discontinued with little impact on meeting the City's policy objectives: or
 - On funding: by identifying services that might be more properly funded from City's Cash and / or Bridge House Estates- having due regard to the objectives and purposes of those funds; or
 - From additional income opportunities.

SR3: The nature of the Risk

8. The risk is a deficit position of £5.6m on City Fund in 2015/16. To set out the context, the forecast financial position for the City Fund is shown in the table below:



9. For this financial year and 2014/15, we expect to add to our reserves, thus providing a one year window in which to hone savings plans before the 2015/16 budget setting process commences.
10. So far savings options worth up to £4.5m have been identified and are being examined. Of this, some £2m is reasonably secure and the remaining £2.5m are being assessed. This leaves a target of between £1.1m-£3.6m in order to achieve a balanced budget in 2015/16.
11. Our financial strategy for City Fund (Non Police) is to have sufficient cashable savings to balance the budget, based on our estimate of government funding cuts up to 2014/15 and to have a surplus to carry into 2015/16 and 2016/17, in anticipation of further funding cuts. On this basis, we have sufficient reserves to allow us to cover 2015/16, should there prove to be a modest deficit.

SR3: Mitigating Controls

12. Our approach to mitigating the risk is:

- Stage 2 of the service based review- to identify savings options of between £1.5m-£3.6m in order to achieve a balanced budget on the City Fund in 2015/16
- Validate savings options;
- To increase the Prudent management of City Fund finances and to use current financial planning to build up reserves;
- Robust financial forecasting and planning; and
- Scrutiny of the achievement of savings options by the Efficiency Board and Efficiency and Performance Sub-Committee.

13. As the savings are only partially secure, but the deficit is covered by reserves, the net risk assessment is amber. Assuming savings are identified during 2014 and once they have been removed from budgets in the autumn of 2014, the risk will drop to green.

SR14: Nature of the Risk

14. Extrapolating the assumptions used by the LGA results in a forecast deficit of £10.4m in 2016/17. This figure includes provision for known likely costs pressures of £3.6m, but on the basis that these will be largely offset by the rental income derived from investing £110m of cash balances in property; however, there is a new risk of pension fund employer increases, yet to be agreed, quantified and included. Further cuts are likely in 2017/18.

SR14: Mitigating Controls

15. Our approach to mitigating the risk is therefore:

- Increase the target for stage 2 of the service based review from £10m to £13m as a result of the further grant reductions required;
- Expand the scope of the service based review to cover City's Cash
- Manage reductions within current reserves once magnitude of reduction is clear;
- Robust financial forecasting and planning;
- Direct engagement with central government on grant formula to influence where possible the impact on City Fund and to gain early insight into likely scale of cuts; and
- Scrutiny of central risk efficiency proposals by the Efficiency Board and Efficiency and Performance Sub-Committee.

16. Again, as the savings are only partially secure, the net risk assessment is red. Assuming savings are identified, the risk will drop to amber; once savings have been removed from budgets, the risk will drop to green.

Conclusion

17. Further potential mitigation action is primarily being identified via the service based reviews.

Appendices

- SR 3: Financial stability up to 2015/16
- SR14: Longer Term Financial Uncertainty

Caroline Al-Beyerty

Financial Services Director

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Risk Supporting Statement: SR3

Risk Owner: Chamberlain

Risk	Further reductions in the 2013 Spending Review for 2015/16 will reduce grant income for the City Corporation resulting in the Corporation being unable to maintain a balanced budget and maintain healthy reserves in City Fund significantly impacting on service delivery levels. Links to: Strategic Aim SA2 and Key Policy Priority KPP2	Gross Risk	R
		Likelihood	Impact
		5	4

Detail	This risk has already been realised. The 2013 Spending Review announced an 8.2% cash reduction for 2015/16 for non-police services. This headline rate actually translates to a cash reduction of 15.5% for the City, increasing the forecast deficit to £5.6m in 2015/16.
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Issues	Controls
<ul style="list-style-type: none"> * Reduction in grant income to the City Corporation * Increasingly difficult to maintain a balanced budget * Increased pressure on reserves 	<ul style="list-style-type: none"> * Service based review to address the 2015/16 forecast deficit, including a review of spend not in line with City Fund duties that may potentially be better funded from Bridge House Estates and reconsideration of the asset sales policy. (The Town Clerk, Chamberlain and Financial Services Director) * Maintaining prudent management of City Fund finances and using current financial planning to build up reserves. (The Chamberlain and Financial Services Director) * Robust financial planning (The Chamberlain and Financial Services Director) * Scrutiny of the achievement of savings options by the Efficiency Board and Efficiency and Performance Sub-Committee. (The Town Clerk, Chamberlain and Financial Services Director)

Summary So far savings options worth up to £4.5m have been identified and are being examined. Of this, some £2m is reasonably secure and the remaining £2.5m being assessed. This leaves a target of between £1.1m-£3.6m for a balanced budget in 2015/16. However, as this deficit is covered by reserves the net risk assessment is amber. When savings have been identified and have been removed from budgets in the autumn of 2014 the risk will drop to green.	Net Risk	A
	Likelihood	Impact
	5	2
	Control Evaluation	
G		

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Risk Supporting Statement: SR14

Risk Owner: Chamberlain

Risk	Likely reductions in future spending rounds will reduce grant income for the City Corporation resulting in the Corporation being unable to maintain a balanced budget and maintain healthy reserves in City Fund significantly impacting on service delivery levels.	Gross Risk	R
	Links to: Strategic Aim SA2 and Key Policy Priority KPP2	Likelihood	Impact
		5	4
Detail	This risk is already headlined in the medium term financial strategy approved by the Court of Common Council in March 2013. The position for non-protected services from 2016/17 looks to be difficult. With another £25 billion worth of cuts pencilled in for the two years after 2015-16. The Future Funding Outlook report, launched at Local Government Association (LGA) conference in July, used a central assumption of an 8% (cash) cut in 2016/17, and a 7% cut each year thereafter. The scale of these reductions coupled with the financial impact of other pressures such as our share of the likely appeal costs under the new Business Rates Retention system and the progressive adoption of the London Living Wage, the 2016/17 forecast deficit is likely to exceed £10m.		
Issues	Controls		
<ul style="list-style-type: none"> * Reduction in grant income to the City Corporation * Increasingly difficult to maintain a balanced budget * Increased pressure on reserves 	<ul style="list-style-type: none"> * Service based review to address the 2016/17 forecast deficit, including a review of spend not in line with City Fund duties that may potentially be better funded from Bridge House Estates and reconsideration of the asset sales policy. Expand the scope of the review to cover City's Cash. (The Town Clerk, Chamberlain and Financial Services Director) * Maintaining prudent management of City Fund finances and using current financial planning to build up reserves. (The Chamberlain and Financial Services Director) * Direct engagement with central government on grant formula (The Chamberlain and Financial Services Director) * Scrutiny of savings options by the Efficiency Board and Efficiency and Performance Sub-Committee. (The Town Clerk, Chamberlain and Financial Services Director) 		
Summary	As the savings are only partially secure the net risk assessment is red, when savings have been identified during 2014 the risk will drop to amber and when savings have been removed from budgets the risk will drop to green.	Net Risk	R
		Likelihood	Impact
		5	4
		Control Evaluation	
		R	

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The City of London Corporation
City's Cash

Updated 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

6 November 2013

Dear Sirs

When we presented our Final Report to the audit committee on 15 October 2013, we identified that there were a number of matters outstanding. We have pleasure in setting out in this document our updated report on City's Cash to the Audit and Risk Management Committee of the City of London for the year ended 31 March 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.
- 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		
We have completed our audit of City's Cash, subject to minor audit procedures	Items which remain outstanding at the date of this report include: <ul style="list-style-type: none">• Completion of internal quality review assurance procedures on the annual report;• 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	On satisfactory completion of the outstanding matters, we anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements. The matters that we have taken into account in forming our overall view are described in the following sections.	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
Significant audit risks (continued)		
<p>There were no significant issues arising from our review of these audit areas</p>	<p><u>Revenue recognition</u></p> <p>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, which was in contrast to an increase in the number of tenants occupying the City's Cash portfolio. This is primarily attributable to a number of assets which had generated higher rental income being taken out of renting for refurbishment, mitigated by an increase in the number of lettings of smaller units with lower rental income. We have not identified any issues with the recognition of revenue.</p> <p><u>Management override of controls</u></p> <p>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.</p>	<p>● G Section 1</p> <p>● G</p>
Other issues		
<p>There were no significant issues arising from our review of these audit areas</p>	<p><u>Major Capital Project</u></p> <p>We have identified an immaterial uncorrected misstatement in relation to the amounts accrued for in the financial statements of City's Cash in relation a major capital project.</p> <p>We are of the opinion that the contingent liability disclosed in the financial statements in relation to that project is appropriate.</p> <p><u>Fund Raising for a Major Project</u></p> <p>We have discussed the funding commitment with Officers, challenged the latest position and concur that the contingent liability disclosed in the financial statements is appropriate.</p> <p><u>VAT</u></p> <p>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.</p> <p>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.</p>	<p>Section 2</p>

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 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

● G

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.

Fund Raising for a Major Project

● G

City's Cash has a potential funding obligation for a major capital project

During 2008/09 the City of London Corporation offered to seek voluntary contributions from large businesses, subject to the full active support of Government, in relation to a major capital project and to underwrite a significant element.

Deloitte response

We have discussed the position with officers and understand that whilst there is no current obligation to fund the sum that potentially has to be underwritten, the future position is uncertain. We will request a specific management representation on the current position.

We recommend that management continue to monitor the situation and concur that the contingent liability disclosed in the financial statements is appropriate.

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 years' 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 12, 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

6 November 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	-
Reduction in the accrual for a major capital project	[2]	-	-	-	-
		<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

[2] This adjustment relates to a reduction in the accrued expense for a major capital project of £1.2m, with a corresponding reduction in the carrying value of fixed assets of £0.6m and a commitment to refund the other entities within the City of London Corporation of £0.6m (as they provided initial funding for the project).

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 Audit and Risk Management Committee.

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] November 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 19 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 view, 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 Funding a Major Capital Project there is no current obligation, therefore no provision has been recorded, however a contingent liability note has been disclosed.

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 City's Cash involving:
- (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 7

Committee(s):	Date(s):
Audit and Risk Management Committee	11th December 2013
Subject: Anti-Fraud and Investigation Up-date Report	Public
Report of: Chamberlain	For Decision

Summary

This report provides Members with an up-date of our investigation activity since the September Committee, and details the pro-active anti-fraud work currently being undertaken.

As of 2nd December 2013, the Fraud Awareness E-learning training course has been completed by 76% of staff across the City Corporation; a revised deadline of Friday 22nd November was given to Chief Officers to ensure that staff undertook this essential training. The Chamberlain is actively following up with those Chief Officers directly where overall completion of the training is still considerably below an acceptable level.

A Fraud Awareness hand-out booklet has been disseminated to Chief Officers to assist in the training of those staff that have no access to Corporate networks or PC's, or have insufficient skills to undertake the E-learning package. A deadline for completion of training to these groups of staff has been set for the 17th January 2014. It is estimated that this would apply to between 100 and 200 staff. Groups of staff being trained through these materials are to be agreed by Chief Officers with internal audit at the end of November. A further update on completion of the training will be given at the Committee meeting.

A pro-active drive targeting social housing fraud was recently undertaken in partnership with a major credit reference agency. This has identified 93 City of London social housing tenancies where there may be a high risk of tenancy fraud; it has likewise produced an additional 372 medium and low risk social housing fraud referrals for review. Work has already commenced on reviewing the high risk referrals, with one property already returned to the City of London Corporation as a direct result of this activity.

A housing benefit fraud prosecution case was heard in Westminster Magistrates Court on 20th November 2013: the defendant pleaded guilty to five charges relating to fraudulently obtaining housing benefit totalling £37,000. The defendant was given a six month custodial sentence, suspended for 12 months, ordered to pay costs of £5,446, and has repaid the overpaid benefit of £37,000 in full.

A recent recruitment exercise resulted in the employment of an experienced Fraud Investigator on a two year contract.

Recommendations

Members are asked to note:

- The progress of the Fraud Awareness training and the actions taken to facilitate delivery of the training to all staff across the City Corporation.
- The pro-active social housing fraud drive, undertaken in partnership with a major credit reference agency.
- The outcomes of investigations undertaken since the last update report.

Main Report

Background

1. The City's Internal Audit section provides a professional corporate investigation service across the City Corporation. Anti-fraud activity undertaken by the section combines reactive investigations with pro-active work designed to prevent, deter and detect fraud. Each Internal Audit review also considers fraud risk as part of its scope with appropriate recommendations made to improve controls to mitigate fraud risks where necessary
2. Members were provided with an anti-fraud and investigation update report at this Committee on 17th September 2013, summarising our investigation case-load and outcomes for the current reporting year, along with details of the anti-fraud activity being progressed by the team. This report provides Members with a summary to date of our investigation case-load and outcomes, along with details of the anti-fraud work currently being undertaken.

Investigation Activity Summary

3. The following table summarises our investigation activity in the current reporting year from April 2013; it gives the number of cases closed and number of cases subject to investigation across all types of fraud. It also details the investigation caseload over the past two reporting years for comparison, along with a summary of live cases currently under investigation from previous years.

Investigations Caseload	2013/14				2012/13	2011/12
	Cases brought forward from previous year	New cases opened	Cases closed	Current live cases	Total	Total
Benefit Fraud	21	20	31	10	52	43
Housing Fraud	10	23	20	13	21	21
Blue Badge Fraud	0	1	0	1	0	1
Corporate Fraud:						
Theft	5	5	9	1	13	3
Cheque Fraud	0	0	0	0	0	2
Employee Conduct	2	3	4	1	6	6
Total	38¹	52	64	26	92	75
Notes:						
¹ Of the total number of cases brought forward from the previous year, 32 have now been closed						

4. Detailed housing benefit and housing tenancy fraud caseload reports are maintained by Internal Audit and are available to Members upon request.
5. A housing benefit fraud prosecution case was heard in Westminster Magistrates Court on 20th November 2013; Edward Nelson, a former housing benefit claimant of the City of London Corporation, pleaded guilty to five counts of fraud by false representation under section 2 of the Fraud Act 2006, following a joint investigation with Camden Council. Mr Nelson was given a six month custodial sentence, suspended for 12 months, and ordered to pay the full prosecutions costs of £5,446, by 2nd January 2014. The overpaid housing benefit totalling £37,000 has been repaid in full to the City of London Corporation (£20,000) and Camden Council (£17,000).

Proactive Anti-Fraud Activity

6. Internal Audit recently engaged in a pro-active anti-fraud exercise with a major credit reference agency, designed to identify alleged sub-letting, and/ or cases of dishonest applications, by City of London social housing tenants. This exercise matched City Corporation housing tenant data against credit reference agency data to ascertain whether the tenant is linked to other addresses, or where unknown persons are linked to the tenants address. The following table summarises the output from the data-matching with the credit reference agency;

Description	Numerical	Percentage
Records Processed	1906	
No Risk of Tenancy Fraud	1441	75%
High Risk Referrals	93	5%
Medium Risk Referrals	114	6%
Low Risk Referrals	258	14%
Total	465	25%

7. The 93 high risk cases are currently being prioritised by the team, and are being worked through in Estates order. At the point of writing this report, the 29 high risk referrals relating to tenancies on one City Estate have been reviewed, from this 13 referrals have been closed as there was no fraud identified following closer inspection, 15 cases are currently subject to intelligence gathering actions and 1 property has been returned as a direct result of this exercise. Referrals that progress through the intelligence gathering stage are raised as full investigation cases and transferred to the social housing fraud caseload trackers as appropriate.
8. On 14th October 2013, the Prevention of Social Housing Fraud Act 2013 became law, this Act of Parliament gave specific criminal offences for unlawful sub-letting for the first time; likewise it made provisions for the courts to award social housing providers, such as the City of London Corporation, unlawful profit orders, designed to recover the illicit profits made by dishonest tenants from sub-letting. We intend to utilise these new powers, as appropriate, in all suitable cases, and seek to recover the illegal gains from social housing fraudsters, along with possession of City of London social housing stock that has been illegally obtained or used.

Fraud Awareness Training

9. Since our report to this Committee on 17th September 2013, much work has been undertaken to implement delivery of the fraud awareness training to all staff across the City Corporation. A unique identifier, payroll number, has been made mandatory on the Elearning platform and this allows an easier comparison to be made to our employee data base and has thus improved the accuracy of the statistics that are able to be drawn from the systems. This data is helping Chief Officers target those individuals who are yet to complete the training. This improvement to the system also allows for more accurate data transfer between systems so that an individual's training record is updated..
10. The initial target date for completion of this training was 1st October 2013. Members will be aware that we had difficulty verifying the data from the E-learning system at that time: although the numbers may not have been 100% accurate, it is clear that this had not been achieved.

11. A series of communications have been maintained with Chief Officers, and the target date was subsequently extended to 22nd November 2013. Chief Officers were asked to ensure that all staff had completed the on-line training by this date, and provide the Departmental listing of training completion back to Internal Audit by the close of business on Friday 29th November 2013. At the time of writing this report, responses have been received from eleven of the eighteen Departments. The listings provided by Departments are being used to confirm and agree those directly employed staff, who do not have access to the Corporate network, or to PC's, or have insufficient ICT skills and experience; such staff are to be trained by alternative methods. It is estimated that this would apply to between 150 and 200 staff, with groups of Open Spaces staff being the largest group.
12. In order to aid Departments in facilitating the Fraud Awareness training to those employees that have either no access to the Corporate network or to PC's, or have insufficient ICT skills and experience, Internal Audit have produced a Fraud Awareness hand-out booklet, encompassing key anti-fraud messages and training material beneficial to staff working at any level, and in any position, across the organisation. This Fraud Awareness hand-out booklet, which has been made available to Members, as Appendix 1 to this report, has been provided to Departments, for use in training staff. A deadline of the 17th January has been set for briefing and training staff using this material, and departments have been instructed to confirm back to Internal Audit which members of staff have received the training in this way, including a confirmation that briefed staff have been given sufficient time to read, and digest the information, and pose any questions with their line management. Groups of staff being trained through these materials will be agreed by Chief Officers with internal audit at the end of November.
13. It is intended that the Fraud Awareness training will form part of the City Corporation's induction process for all new starters joining the organisation. It will continue to be delivered via E-learning wherever possible.
14. A second phase Fraud Awareness roll-out is planned to include those who work for the City of London through an agency, and therefore are not directly employed, and staff who work intermittently such as Casual Staff, where the nature of their duties requires an awareness of anti-fraud and corruption issues. This will be rolled out in early 2014.
15. As of 2nd December completion of the Fraud Awareness training currently is 76% across the organisation. The table on the next page summarises the completion of the Fraud Awareness training across Departments, as of this same date.

Department	No. of Staff	Completed Numeric	Completed %
Sir John Cass School	79	1	1%
Boys School	151	9	7%
Community & Children's Services ¹	238	108	45%
GSMD ²	223	103	46%
Barbican	298	168	56%
Mansion House	35	22	63%
Freemen's School	152	118	78%
Girls School	136	109	80%
Open Spaces ³	369	302	82%
Culture, Heritage & Libraries	288	269	93%
Built Environment	190	176	93%
Central Criminal Court	108	102	94%
City Surveyors	255	241	94%
Town Clerks	230	226	98%
Chamberlains	256	254	99%
Comptroller & City Solicitors	52	52	100%
Markets & Consumer Protection	242	242	100%
Remembrancers	26	26	100%
TOTAL	3328	2528	76%

¹Of the 130 staff in the Department of Children & Community Services that are yet to complete the Fraud Awareness Training, Internal Audit have agreed that 46 can be trained by means of the Fraud Awareness hand-out booklet.

²Of the 120 staff in the Guildhall School of Music and Drama that are yet to complete the Fraud Awareness Training, approval for 49 members of staff to be trained by alternative means has been requested. The rationale for this is currently under discussion with the school.

³Of the 67 staff in the Open Spaces Department that are yet to complete the Fraud Awareness Training, Internal Audit have agreed that an additional 34 can be trained by means of the Fraud Awareness hand-out booklet. 67 staff from Open Spaces have already received such paper based training in recent weeks.

16. The application of the unique identifier to the Elearning platform has improved the data quality by giving Chief Officers more comprehensive information about completion in their departments. As a result, they have been able to identify those employees that are on the system but are not working at present due to various factors including maternity leave and long term sickness absence. The effect of this is that some departments have moved to their accurate position of 100% completion. We are continually reviewing this and it is anticipated that a number of other departments will move to this level when the full departmental returns are submitted to Internal Audit.
17. Members will be provided with a further update on the completion statistics by Department prior to the Committee meeting on 11th December 2013.

City of London Police Liaison arrangements

18. Our liaison with the City Police has now been ongoing for over a year, and remains an extremely positive arrangement. Through this liaison activity, we have been able to facilitate the referral of cases effectively and in a timely fashion to the City Police, and likewise assist the City Police where necessary with requests for information from the City Corporation. Quarterly liaison meetings are set to continue, with the next meeting being arranged for February 2014.

Recruitment

19. Following a recent recruitment exercise, an experienced Fraud Investigator has been appointed on a two year fixed term contract. The successful candidate who has been engaged on a contract basis with the City Corporation since January 2013, has already delivered a number of positive outcomes, contributing to the recovery of eight social housing properties and the sanction of twelve housing benefit claimants so far this reporting year.

Conclusion

20. Internal Audit continues to provide a specialist fraud investigation service across the City Corporation, with positive outcomes continuing to be delivered as demonstrated by the recent successful Housing Benefit prosecution case.
21. A pro-active social housing fraud drive, undertaken with a major credit reference agency has identified 93 tenancies that may be at high risk of tenancy fraud. Work is already underway to review the referrals received, with one property already returned as a direct result of this activity.

22. The fraud awareness training has been completed now by a much higher percentage (76%) of directly employed City Corporation employees as of 2nd December 2013. Significant work and improvements have been made to the management information in the last 2 months, to enable the targeted monitoring of training completion, and escalation by the Chamberlain with Chief Officers where there has been poor completion rates. Additional, non-IT based training material has also now been made available to assist the delivery of training.
23. Liaison arrangements with the City of London Police remain extremely positive, and have aided timely and successful referrals of appropriate cases to the City Police.
24. An experienced Fraud investigator has been successfully recruited and employed on a 2 year contract. This will provide a strong basis for the continued provision of anti-fraud and investigation capability and capacity.

Background Papers:

Appendices

Appendix 1: Fraud Awareness Hand-out Booklet

Contact:

Chris Keesing

Chris.keesing@cityoflondon.gov.uk

020 7332 1278



This Fraud Awareness handout has been designed to provide essential information to City of London Corporation employees in order to aid in our fight against common types of fraud that may affect the organisation.

Employees can be the most effective deterrent of fraud, even if not directly involved in financial systems. Their local knowledge of people and the organisation is critical intelligence in the fight against fraud. They are also best placed to recognise warning signs of fraud in the work place and report their suspicions.

Employees receiving this handout will also be provided with a copy of the City of London Code of Conduct, which should likewise be read in conjunction with this learning material.

Should you have any questions about any part of the information contained within this document, or wish to receive copies of other Policy, Procedure documents or publications referred to in this booklet, you should approach your line manager in the first instance. Alternatively, you may contact Chris Keesing, Senior Investigator on 020 7332 1278 or Paul Nagle, Head of Audit & Risk Management on 020 7332 1277

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1. A Statement from the Town Clerk & Chief Executive

"Increases in fraud go hand-in-hand with tough economic conditions. It's at such times that some unscrupulous people turn to crime to make ends meet, whilst other criminals seek to exploit weaknesses within organisations.

The current time of austerity is impacting upon the services provided by all Local Authorities. The City of London Corporation is having to deliver more with less, and as a result, all staff need to be more vigilant to minimise the risk of fraud.

We must ensure internal controls are maintained and any suspicions of fraud are reported promptly. Only then will our assets and revenues be safeguarded.

It is essential that you read and digest this learning material as it is a critical part of the City Corporation's armory in its fight against fraud. I hope you find the material informative and enjoyable."

2. What is Fraud & Corruption?



What is Fraud?

Fraud can be defined as taking or attempting to take something to which you know you are not entitled. It can be committed by Members, employees, members of the public or organisations.

It can involve theft, false accounting, deception, forgery and bribery. It can range from small, one-off occurrences through to serious organised crime. The [Fraud Act 2006](#) states that people carrying out serious frauds can be imprisoned for up to 10 years.

What is Corruption?

Corruption is slightly different. It occurs where people abuse their position or powers to make a gain for themselves or for someone else.

Why does Fraud and Corruption Occur?

Four elements are common to all cases of fraud and corruption:

- **People are involved**
- **Assets are at risk**
- **There is intent or motive**
- **Insufficient controls are in place to deter or prevent such activity**

Fraudsters are driven by common characteristics - need, greed, ego, revenge or even a challenge to beat the system. They often take advantage of the carelessness, naivety or incompetence of others.

Fraud diverts resources away from those who need them.

Did you Know.....?

85% of fraud.....

.....is perpetrated by employees or former employees

10% of people.....

.....would NEVER commit fraud

80% of people.....

.....are OPPORTUNISTS who may commit fraud in the right circumstances

But most worrying of all.....

.....10% of people will ALWAYS commit a fraud if the opportunity arises!

What is the Impact of Fraud?

Service Delivery.....

.....can be affected by the theft of assets or the diversion of scarce resources

Budgets.....

.....can become even more stretched from losses of income or from improper spending

Loss of Reputation.....

.....can occur from frauds that damage the City Corporation's image both locally and nationally

3. City of London Anti-fraud Culture



The City Corporation's Anti Fraud culture is underpinned by our [Anti-fraud & Corruption Strategy](#), endorsed by Members and Chief Officers. This strategy emphasises the City Corporation's zero tolerance to fraud and sets out the holistic approach adopted by the organisation to fight fraud. This approach encompasses the deterrence, prevention, detection and investigation of fraud and identifies a commitment to the use of appropriate sanctions, prosecutions and recovery of losses.

Aiding the maintenance of a culture in which fraud is not tolerated is the [Employee Code of Conduct](#), which defines expectations of Officers, whilst also detailing guidance on gifts, hospitality and conflicts of interest. In addition to this, Members of the City of London are expected to act with regard to the principles laid out in within the Members Code of Conduct.

Preventing Fraud and Corruption

The City Corporation's system of internal controls also help to prevent fraud and corruption. Any relaxation of these could present opportunities to one-off fraudsters and to career criminals.

Some of the key controls include:

- **Clear separation of duties**
- **Clear authorisation procedures for payments, recruitment, procurement, etc.**
- **Regular supervisory checks and monitoring by management**
- **Effective document filing with a clear audit trail**
- **Controls over use of IT systems including changes to passwords**
- **Clear & effective tendering controls & procedures** **If these controls are not in place, your service is at a greater risk of fraud.**

Who is responsible?

We all have a responsibility to maintain a strong anti-fraud culture and effective systems of internal control. The following people have responsibility for specific aspects, as detailed below;

Managers.....

.....Are responsible for recruiting suitable people, protecting the City's assets, and maintaining the systems of internal control. Managers also need to ensure that staff have neither the motivation, nor the opportunity to commit fraud.

Members.....

.....Add value by providing an independent and impartial review of those services that may be at risk of fraud.

Employees.....

.....Can be the most effective deterrent of fraud, Their local knowledge of people and the organisation is critical intelligence in the fight against fraud. They are also best placed to recognise warning signs of fraud in the work place and report their suspicions.

Warning Signs

Suspicious or odd behavior can be a warning sign of fraud. Whilst there may be non-fraudulent reasons for such behavior, we do need to be aware of potential indicators such as people who:

- **Are under stress and have financial concerns**
- **Are first to arrive in the morning, last to leave at night and reluctant to take holidays**
- **Take risks, break rules or are scornful about internal controls**
- **Have cosy relationships with suppliers or contractors**
- **Have unexplained wealth or sudden changes in lifestyle**

If you become aware of such circumstances and have concerns, you should discuss them with your line manager. Alternatively, you can use the City Corporation's Whistleblowing Policy or the Corporate Fraud Hotline 020 7332 3663 to log your suspicions.

4. What can you do to help protect the City Corporation against the risks of fraud?



The current economic climate means we need to do more with less. In such circumstances, all officers need to be constantly vigilant to ensure our internal controls are effective and our assets are protected from fraudsters.

It is increasingly likely that you will see, at some time in the course of your job, warning signs of a fraud being committed. It is your responsibility to report your suspicions promptly and accurately.

Effective fraud referrals will ensure that fraudsters are dealt with quickly and any losses are minimised.

Who to contact?

Your Manager...

.....is usually your first port of call if you need advice but if this is inappropriate, you can always contact the Internal Audit Counter Fraud team directly on 020 7332 1278 or 020 7332 1277, via the Corporate Fraud Hotline, on 020 7332 3663 or email raiseyourconcern@cityoflondon.gov.uk.

The Internal Audit Counter Fraud team...

..... is independent and objective. It is responsible for monitoring organisation-wide fraud prevention and detection procedures. It is always receptive to discussing concerns raised by officers, Members and the public.

Once reported to Internal Audit, professionally qualified and experienced Investigators will evaluate and make initial enquiries to determine the basis of the concerns raised. We will then make a decision on the nature of any investigation undertaken, along with considering whether the matter needs reporting to the Police.

The City of London's [Anti-fraud & Corruption Strategy](#) defines how suspicions can be raised quickly and in confidence. In addition to this the City Corporation's Whistleblowing Policy details how employees and members of the public can raise concerns.

Any concern raised is treated with the strictest of confidentiality.

What can you do?

As an officer of The City Corporation please remember that it is your responsibility to:

- **Be constantly alert to the possibility of fraud**
- **Be objective without being over-zealous**
- **Be familiar with the various types of fraud**
- **Recognise warning signs that indicate potential fraud**
- **Refer any suspicions promptly and accurately**

If you don't feel sufficiently equipped to carry out any of these responsibilities or have other concerns, please speak to your line manager in the first instance. It may be appropriate for your line manager to arrange additional training for you or your section.

Alternatively you can contact the Internal Audit Counter Fraud Team on 020 7332 1278 or e-mail raiseyourconcern@cityoflondon.gov.uk

5. Common Types of Fraud



This section looks at common frauds under FOUR types:

- **Frauds involving financial transactions**
- **Frauds on benefits, grants and other funding**
- **Theft and misuse of assets, resources or information**
- **Corruption and bribery**

It includes indicators of potential fraud, plus Case Studies of recent frauds perpetrated against Local Authorities.

Frauds Involving Financial Transactions

Fraudsters often target Local Authority processes that involve financial transactions. Fraud can result from false accounting or from the manipulation of financial processes such as Creditor Payments, Expenses or Payroll.

Such frauds can be prevented by applying effective internal controls, remaining vigilant, and by looking out for suspicious warning signs.

Such frauds can occur where:

- **There is no separation of duties between individuals**
- **Checking procedures are inadequate**
- **Authorisation controls are overridden**
- **Management supervision or monitoring is poor**

The City Corporation participates in data matching exercises such as the National Fraud Initiative, and undertakes additional internal exercises which enable potential fraud and corruption to be identified and fully investigated.

Case Study - Creditor Payment Fraud

A Payments Manager exploited the relaxation of controls in a Council's Creditor Payments system to defraud over £1.1m.

Whilst Council procedures required the separation of input and authorisation functions, the Manager relaxed this control to speed up invoice processing. He then changed payment details input by his staff and directed payments elsewhere. He also coded all payments to VAT so that they didn't appear on budget monitoring reports.

The (former) manager was sentenced to 7½ years in prison. Several properties in his ownership were

confiscated, together with a substantial cash sum, and compensation was awarded to the Council.

Actions were taken by the Council to prevent future breaches of internal controls.

Case Study - Funding Fraud

Son diverted direct payments identified to pay for care of elderly mother

In March 2011, a court found a man guilty of two counts of fraud and sentenced him to 20 weeks imprisonment for defrauding the public purse of over £12,000. The man had fraudulently diverted the money received from the council by direct payments. The payments were to provide a carer for the fraudster's elderly mother. Council Investigators proved the fraudster had diverted the money instead for his own purposes.

Case Study - Social Housing Fraud

Acting on information received about a suspected housing benefit fraud, one London council also uncovered a case of housing tenancy fraud. The tenant claimed to be unemployed and living alone in a housing association property. She was actually employed at a school and lived in, and jointly owned, a separate property elsewhere.

The tenant pleaded guilty in court to several benefit offences totaling £25,000. The tenant also pleaded guilty to the offence (under Section 3 Fraud Act) of failing to disclose information and subletting the housing association property.

The court sentenced the tenant to three months imprisonment, suspended for two years, with a requirement to undertake 150 hours of work in the community. The court also placed a restraining order on the property jointly owned by the tenant. The council and police are pursuing confiscation proceedings.

Case Study - Theft of Assets

A Cashier was responsible for the collection and banking of a Council's car parking income. She was a "mild and modest" individual and an entrusted employee.

This trust proved misplaced as the employee siphoned off £10,000 per month from the takings to fund her obsession with Elvis Presley memorabilia and recordings. Her actions went undetected for nearly a decade and the theft amounted to over £550,000. The fraudster was sentenced to 3 years in prison.

Actions taken to prevent further fraud included:

- Separation and frequent rotation of duties
- Regular, independent monitoring of expected and actual income levels

Indicators of potential fraud include...

- Staff knowledge that an applicant's circumstances differ from claims made
- Unusual, excessive or duplicated claims
- Unwillingness by claimants to provide supporting information
- Complaints from clients that services or benefits have not been received

If you suspect a fraud is taking place, report it to the Internal Audit Counter Fraud team directly on 020 7332 1278 or 020 7332 1277, via the Corporate Fraud Hotline, on 020 7332 3663 or email raiseyourconcern@cityoflondon.gov.uk.

Corruption & Bribery

Corruption occurs where individuals abuse their position or powers to make a gain for themselves or for someone else. It sometimes involves collusion between individuals e.g. a fraudulent agreement between employees or between an employee and a third party.

Bribery is the offering of something e.g. money, goods or services to gain an unfair advantage. It can range from acceptance of small gifts (e.g. to write off a Council fine) right through to large payments to fraudulently approve multi-million pound construction deals. The new Bribery Act 2010 cracks down on all such criminal activities.

The City Corporation has a zero tolerance towards bribery, and disciplinary action will be taken against anyone found to have offered or accepted a bribe in the course of their work and/ or activities on behalf of the City Corporation. In addition to such action, anyone found to have committed offences under the Bribery Act 2010 may be subject to criminal proceedings.

You must report and record any instances where there may be a conflict of interest.

If someone you know has a lavish lifestyle that well exceeds their income, it might be an indicator of corruption or bribery.

Case Study – Corruption

A council used a worker provided by an employment agency to manage a project. The council placed the agency worker in charge of a large budget and he gave the project work to several contractors.

The budget was rapidly overspent and the council diverted money from other council budgets to continue the project. Following information from one of the contractors, the council discovered the agency worker had set up his own fictitious company and was making false claims for work done. The fraud itself amounted to over £110,000. Legal & investigation costs were of a similar scale.

The insurance company that issued the council's fidelity insurance policy refused to pay compensation because the council had not undertaken sufficient checks when recruiting the fraudster. The agency had undertaken what it considered to be reasonable employment checks but they did not meet the requirement of the fidelity insurance policy.

The agency worker was sentenced to two years imprisonment. Further inquiries showed that the fraudster had provided a false CV and had a previous conviction for a similar offence.

6. Expenses Fraud



This section focuses on potential fraud involving travel and subsistence expenses paid to both officers and Members.

It covers the scope, warning signs and internal controls, plus a real-life Case Study.

The claiming of such expenses is commonplace, and it is a sensitive area that is susceptible to fraud.

Beyond the resulting financial losses, the incidence of any such frauds could badly damage the Authority's reputation.

Expenses Fraud - Scope

Frauds can occur where individuals:

- **Claim mileage of allowances for meetings or appointments that they did not attend**
- **Overstate mileage, subsistence or attendance times**
- **Duplicate claims for attendance at several meetings or locations on the same day**

Expenses Fraud - Warning Signs

No claims for expenses can be processed unless they have been appropriately authorised. There are tell tale signs of potential fraud which authorising officers should look out for.

Examples of potentially fraudulent expense claims include:

- **Altered receipts**
- **Incorrectly dated or timed receipts**
- **Photocopied receipts**
- **Receipts which relate to events/visits for which the officer had no prior approval**
- **Late submission of claims meaning that the authorising officer has only scant memory of the event**

Expenses Fraud - Internal Controls

In accordance with the conditions set out in the [Travel & Subsistence](#) section of the City Corporation's [Employee Handbook](#), employees necessarily incurring additional expense in the course of their work in respect of travel, meals or overnight accommodation will be reimbursed. For staff attending events such as conferences etc. they must refer to the City of London [Business Travel Scheme](#) for information relating to travel, accommodation, hospitality & subsistence rates.

Where additional out of pocket expenses are claimed these must:

- **be submitted within specified timescale's**
- **be authorised by a designated officer**
- **be supported by appropriately timed and dated original receipts wherever possible**
- **not exceed current financial limits as set out in the Travel & Subsistence section of the Employee Handbook, and/ or within the Business Travel**

Case Study - Expenses Fraud

A Police investigation at a large Local Authority resulted in a number of former Members being convicted of expenses fraud.

One former Member admitted falsifying expenses by claiming 1st class rail fares when travelling standard class and claiming rail fares when sharing a car. The individual was imprisoned.

The case study demonstrates the need for managers to be vigilant in checking all claims and to monitor budgets for significant variances.

7. Procurement Fraud



Procurement Fraud in the Public Sector is costing the public purse an **estimated £2.4bn** per annum according to a joint report issued by the Cabinet office and the National Fraud Authority (June 2011)

Procurement fraud can be perpetrated from both inside and outside any organisation.

Procurement Fraud can involve...

- **Falsifying the input of invoices**
- **Diverting payments to suppliers**
- **Misappropriating purchases made**

In addition, where contracts are concerned Fraud can involve...

- **Collusion between employees and a favoured candidate**
- **Collusion between candidates (i.e. cartels)**
- **Over or under valuation of works or services**

Procurement Fraud - Warning Signs

All employees need to watch out for potentially fraudulent situations where there are:

- **Excessive, duplicated or photocopied invoices**
- **Invoices in advance of goods received**
- **Unexpected deliveries in terms of quantity, quality or timing**
- **Strange payment arrangements or odd addresses**

Procurement Fraud

Additionally all employees should be mindful of scams which operate whereby invoices are received for goods or services which have not been ordered and in many cases not received either.

An example of this type of fraud typically involves receipt of an invoice for an advertisement in a publication or online site.

The advertisement has not been requested by the authority. The scammers can be quite insistent on payment and may even threaten "legal action."

Local Authorities across the country have noticed an increase in fraudsters contacting payment teams requesting changes to bank accounts. Staff must remain vigilant and ensure that robust

checks are made to verify the authenticity of any requests made to change suppliers bank details.

Procurement Fraud - Case Study

In 2009, the Office of Fair Trading (OFT) imposed fines totaling £129m on 103 construction firms in England. These firms were found to have colluded with competitors to agree over-inflated bids for building contracts amongst public sector organisations. This activity is known as 'cover pricing'.

Cover pricing is where one or more bidders in a tender process obtain an artificially high price from a competitor. Cover bids are priced so as not to win the contract but are submitted as genuine bids, which give a misleading impression to clients as to the real extent of competition. This distorts the tender process and makes it less likely that other potentially cheaper firms are invited to tender.

The OFT also found six instances where successful bidders had paid an agreed sum of money to the unsuccessful bidder (known as a 'compensation payment'). These payments of between £2,500 and £60,000 were facilitated by the raising of false invoices.

8. Recruitment Fraud



You have read throughout this document that employees are The City Corporation's front line in the fight against fraud. The recruitment of the highest calibre of employee is therefore crucial. The City Corporation's [Recruitment & Selection Policy](#) explains the various checks and procedures which must be undertaken before any offer of employment can be made.

Recruitment Fraud occurs where people falsify their identity, their right to work, job application or criminal history to gain employment. Usually this applies to new employees, but it may also involve existing employees who take up different roles within the organisation.

Failure to properly vet candidates and employees can result in someone with false or overstated qualities undertaking tasks for which they are not qualified or authorised. Access to the organisation by unscrupulous employees can also open the door to criminal activity, and harm the City Corporation's reputation.

Recruitment Fraud - Scope

Vigilance is needed to confirm the circumstances of prospective employees in order to defend against fraud.

In some Public Sector organisations instances of fraud have resulted from job candidates who:

- **Used a false identity to gain employment**
- **Deliberately made false statements about their qualifications**
- **Were ineligible to work in the UK**
- **Failed to declare a criminal record or complete a CRB check**

The impact of recruitment fraud includes:

- **Reduced performance resulting from the appointment of staff with inadequate knowledge, skills or experience**
- **Additional costs of disciplinary action and possible dismissal for such staff, plus the re-recruitment and training of replacements**
- **Increased risks of fraudulent actions by dishonest staff and potential harm to vulnerable service users**

Recruitment Fraud - Warning Signs

Examples of some specific warning signs include:

- inconsistencies on application forms e.g. unexplained gaps in employment
- supporting documents (e.g. on immigration status) that are copies or otherwise appear to be false, forged or stolen
- unrealistic or contrived employment records, capabilities or qualifications
- absence of up-to-date references e.g. from the preceding employer

Recruitment Fraud - Case Study

A public sector organisation offered a permanent post to an individual following a period of employment as a contractor. There were subsequently some concerns over project finances and suspicion fell on the individual.

Investigators found that, on appointment, the individual had used a false identity and was in fact a convicted fraudster. Within weeks of his permanent employment, he had set up a fake company and paid himself over £2 million for work, the vast majority of which was never carried out.

When the fraud was discovered, the fraudster went into hiding. However, the Authority successfully pursued recovery of the stolen money plus costs through the civil courts.

Version No.	Date	Comment	Author
1	14/11/2013	1 st Draft Complete	Chris Keesing
1.1	19/11/2013	Up-dated following review by HARM	Chris Keesing
1.2	19/11/2013	Final Agreed	Chris Keesing

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Agenda Item 8

Committee:	Date:	Item no.
Audit and Risk Management	11 December 2013	
Subject: The Care Quality Commission (CQC) unannounced routine inspection of the Adult Social Care Reablement Service	Public	
Report of: Director of Community and Children's Services	For information	
<u>Summary</u>		
<p>This report informs members of the outcome of the recent Care Quality Commission (CQC) unannounced routine inspection of the Adult Social Care 'Reablement' Service, which took place on 5 September 2013. The term 'reablement' originated from Department of Health to describe care that would be provided to people to help them recover and regain skills they may have temporarily lost due to a period of poor health, disability or hospitalisation. The service aims to help get people back to doing things for themselves, as opposed to having it done for them.</p> <p>The Adult Social Care Service provides 'reablement' services to residents of the City of London for up to six weeks following their discharge from hospital, so that people can become more independent. The service provides home-based support, involving domiciliary care, occupational therapy, physiotherapy, equipment, telecare and/or social work support.</p> <p>The CQC inspection addressed quality and safety of care against five overarching standards:</p> <ol style="list-style-type: none">1. consent to care and treatment2. care and welfare of people who use services3. co-operating with other providers4. staffing5. complaints <p>The 'Reablement' Service was found to meet the standard for each area without any additional conditions or requirements being placed upon the City of London by the CQC.</p> <p>The Inspection Report has been attached as Appendix 1.</p> <p>Recommendations Members are asked to note the report.</p>		

Main report

1 Background

1.1 'Reablement' is focused on enabling people to be independent, following discharge from hospital. It is a prevention and early intervention service that is free to the individual, and can last for up to six weeks, with the aim of supporting people in regaining their confidence, building their informal support, managing their risks and enabling their independence.

1.2 Adult Social Care provides a 'reablement' Service in order to:

- prevent people's needs from escalating
- prevent people needing on-going social care services
- reduce dependency and enable independence
- reduce the need for readmission into hospital within a period of three months from original discharge.

1.3 The service is for adults with a social care need which is assessed as substantial or critical, regardless of age, and can include supporting people who have:

- dementia
- learning disabilities
- mental health conditions
- disabilities
- mobility and physical issues.

1.4 The service can also support individuals with confidence, behaviour and memory issues that might prevent them from managing their personal care, nutrition and practical tasks of daily living.

1.5 The staff provides support on a rota basis from 7am to 7pm, five days a week. All other hours are covered via an external supplier, as required. The work of the external supplier is subject to contract monitoring arrangements, which include weekly meetings to share information on the progress of the service users.

1.6 The 'Reablement' Service is subject to an annual unannounced inspection by the CQC. The recent inspection took place on 5 September 2013.

2 Current position

2.1 The attached report (Appendix 1) sets out the details of the inspection. The Inspector met with staff from the Adult Social Care 'Reablement' Service, including the two Care Support Co-ordinators who provide the direct support and the Occupational Therapist.

2.2 The Inspector spoke with two service users over the phone. Although the CQC Report indicates that the inspection was announced, it was in fact unannounced because the CQC notice letter did not arrive with the City of London Adult Social Care Service until after the actual Inspection had taken place. This matter was subsequently raised with the Regional Managers of the CQC and acknowledged as an administrative error on their part.

2.3 The inspection addressed quality and safety of care against five overarching standards:

1. consent to care and treatment
2. care and welfare of people who use services
3. co-operating with other providers
4. staffing
5. complaints

2.4 The Inspector found that the 'Reablement' Service met the standard for each area without any additional conditions or requirements being placed upon the City of London by the CQC.

2.5 The practice of information sharing on a weekly basis with the external provider and the 'Reablement' Service was commended as good practice.

3. The corporate and strategic implications

3.1 The work of the 'Reablement' Service forms part of the prevention and early intervention agenda making the City safer for its residents.

3.2 The service assists in helping individuals to remain healthy and live longer within their own homes with maximum independence and dignity. Individuals are well safeguarded from harm and assisted to access their community as much as is possible.

4. Financial implications

4.1 There are currently no additional financial implications contained within the CQC report or its recommendations. All current costs are covered within the allocated budgets.

5. Conclusion

5.1 The report notes that the unannounced CQC inspection of the 'Reablement' Service identified that the service met all service standards with no additional requirements placed upon the service.

Background papers:

Appendices

CQC Inspection Report of COL 'Reablement' Service on 5 September 2013.

Contact:

Marion Willicome-Lang | marion.willicomelang@cityoflondon.gov.uk | 020 7332 1216

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We are the regulator: Our job is to check whether hospitals, care homes and care services are meeting essential standards.

City of London

PO Box 270, Guildhall, London, EC2P 2EJ

Tel: 02073321899

Date of Inspection: 05 September 2013

Date of Publication:
September 2013

We inspected the following standards as part of a routine inspection. This is what we found:

Consent to care and treatment	✓ Met this standard
Care and welfare of people who use services	✓ Met this standard
Cooperating with other providers	✓ Met this standard
Staffing	✓ Met this standard
Complaints	✓ Met this standard

Details about this location

Registered Provider	Department of Community Services
Registered Manager	Mr. Ian Tweedie
Overview of the service	Department of Community Services provides re-enablement services to residents of The City of London. This service is available for a period for up to six weeks, so that people can become more independent following their discharge from hospitals.
Type of service	Domiciliary care service
Regulated activity	Personal care

Contents

When you read this report, you may find it useful to read the sections towards the back called 'About CQC inspections' and 'How we define our judgements'.

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Summary of this inspection

Why we carried out this inspection

This was a routine inspection to check that essential standards of quality and safety referred to on the front page were being met. We sometimes describe this as a scheduled inspection.

This was an announced inspection.

How we carried out this inspection

We looked at the personal care or treatment records of people who use the service, carried out a visit on 5 September 2013, talked with people who use the service and talked with staff.

What people told us and what we found

At the time of our inspection the agency provided services to three people. We were able to speak with two people using the service. We also spoke with an occupational therapist, who was also in charge of the day-to-day running of the service, and two care workers. People told us they were very happy with the quality of care provided. One person told us, "I have nothing but good things to say about my care worker. She is always helpful, tactful and polite." Another person told us, "I am very happy and I am treated with dignity and respect."

We also checked the provider's satisfaction questionnaires. These showed that most people "strongly agreed" that they had received a good quality of service from the provider.

We were satisfied that care and treatment was planned and delivered in a way that was intended to ensure people's safety and welfare. The provider cooperated with others involved in the care, treatment and support of people using services to ensure that they received a safe and coordinated service.

The provider was able to demonstrate that there were sufficient numbers of staff with the right competencies, knowledge and qualifications, skills and knowledge to meet the needs of people who use the service

There was an effective complains system in place which allowed people to raise any concerns about the quality of service provided.

You can see our judgements on the front page of this report.

More information about the provider

Please see our website www.cqc.org.uk for more information, including our most recent

judgements against the essential standards. You can contact us using the telephone number on the back of the report if you have additional questions.

There is a glossary at the back of this report which has definitions for words and phrases we use in the report.

Our judgements for each standard inspected

Consent to care and treatment

✓ Met this standard

Before people are given any examination, care, treatment or support, they should be asked if they agree to it

Our judgement

The provider was meeting this standard.

Before people received any care or treatment they were asked for their consent and the provider acted in accordance with their wishes.

Reasons for our judgement

Before people received any care or treatment they were asked for their consent and the provider acted in accordance with their wishes. People's records showed that any refusal from the person using the service to receive support with personal care was always recorded in their individual notes.

The two care workers employed by the provider demonstrated their awareness of issues around mental capacity and consent. They also told us that they would report to their manager any occasions where they felt a person they supported would lack capacity to make decisions. Staff were aware of how to respect the cultural, social values and beliefs of people using the service.

People who spoke with us confirmed that care workers asked for their verbal consent before providing any personal care or support with moving and handling. They also told us that they were provided with sufficient details about the care, treatment and support options offered, to allow them to make an informed decision.

The person in charge of the day-to-day running of the agency had a good knowledge of issues relating to the Mental Capacity Act 2005. They were also aware of the procedures to be followed in relation to any person who may lack mental capacity to consent.

We found that people's individual assessments considered their ability to make informed choices and an assessment of their mental capacity. Each person's file also contained information about people's cultural and religious background.

People should get safe and appropriate care that meets their needs and supports their rights

Our judgement

The provider was meeting this standard.

Care and treatment was planned and delivered in a way that was intended to ensure people's safety and welfare.

Reasons for our judgement

People told us they were very happy with the quality of care provided. One person told us, "I have nothing but good things to say about my care worker. She is always helpful, tactful and polite." Another person told us, "I am very happy and I am treated with dignity and respect." Some of the other comments made were, "service received excellent in every way. Can't see how it could be bettered. Great service!!", "there is nothing in the services I received which I would have changed or preferred", and "I felt that the services I received from the helpers was either very good or excellent. I was particularly impressed by the work and organisation by [the name of the care worker]."

We reviewed the three care plans of the three people using the service at the time of our visit and another two care plans of two people who had recently used the service. We found that the documents were prepared in consultation with each person. There were systems in place to identify risks and how these would be managed. Staff who spoke with us were clear about each person's goals and objectives. This meant that they could support each person to regain their independence.

There were systems in place to deal with any emergencies. Each person's documents included emergency contact details. There was also information for care workers about how they could access people's property in case of emergencies. Staff had attended training in first aid.

We reviewed the agency's satisfaction surveys. Most of the people felt their opinions were at the centre of their care planning and their personal preferences and culture were taken into account in their assessment, and the input they received. Most people also responded that the service they received was reliable and care workers arrived on time.

Cooperating with other providers

✓ Met this standard

People should get safe and coordinated care when they move between different services

Our judgement

The provider was meeting this standard.

People's health, safety and welfare was protected when more than one provider was involved in their care and treatment, or when they moved between different services. This was because the provider worked in co-operation with others.

Reasons for our judgement

People's health, safety and welfare was protected when more than one provider was involved in their care and treatment, or when they moved between different services. This was because the provider worked in cooperation with others. The person in charge of the day-to-day running of the service explained to us what systems for communicating and cooperating with other providers were in place to protect the health, welfare and safety of people using the service.

We were told that the agency assessed each person prior to providing care and support to them. They obtained information from the hospitals from which people were being discharged. There were also bi-monthly meetings between the provider, social services duty department, the City of London Police and the housing department to discuss any issues around safeguarding vulnerable adults. There were also monthly 'early dementia' meetings with a general practitioner to discuss the best ways of working with people who may have early signs of dementia.

We observed the agency's meeting where care workers provided updates about each person they provided services to. This information was also shared with other domiciliary care agencies commissioned to provide personal care.

Staffing

✓ Met this standard

There should be enough members of staff to keep people safe and meet their health and welfare needs

Our judgement

The provider was meeting this standard.

There were enough qualified, skilled and experienced staff to meet people's needs.

Reasons for our judgement

The provider employed two full-time care workers who worked between 7 am and 7 pm Monday to Friday. The other calls were covered by a number of domiciliary care agencies providing services on behalf of The City of London. There was a 24-hour on call cover in place to deal with any emergencies. This meant the provider was able to respond to any unexpected changing circumstances in the service, for example to cover sickness, vacancies, absences and emergencies.

The people who spoke with us told us their care workers always turned up on time. We checked the provider's satisfaction surveys and these showed that most people "strongly agreed" they were given a service which was reliable, with care workers arriving on time.

Care workers recorded their visit to each person using the service in the person's individual care notes. This allowed their manager to monitor whether there were any visits that were provided outside of the agreed time.

The provider was therefore able to demonstrate that there were sufficient numbers of staff the right competencies, knowledge and qualifications, skills and knowledge to meet the needs of people who use the service.

Complaints

✓ Met this standard

People should have their complaints listened to and acted on properly

Our judgement

The provider was meeting this standard.
There was an effective complaints system available.

Reasons for our judgement

As part of this inspection we looked at the providers' complaints system. The person in charge of the day-to-day running of the agency told us each person using the service received a pack called "Putting YOU in control of your care", which included useful information, including information about the borough's complaints procedure. This meant that people were made aware of the complaints system. This was provided in a format that met their needs. People were able to raise concerns by telephone or email. The agency was also able to provide an independent advocate to help people with their complaint if they needed support.

We were told that there were no complaints made about the service within the past 12 months. The provider had systems in place to follow up comments where people wrote that the service was not up to the standard they would expect. We saw one example of where that was the case and we were satisfied that the provider had taken appropriate action to resolve the issue, where possible, to the person's satisfaction. We checked the document and we found that the investigation was both proportionate and sufficiently thorough.

The people who spoke with us confirmed that they had received the information pack and told us they would raise any concerns with the provider, however they had not had any concerns or complaints to raise. One person told us, "I believe in being polite and telling people when I am happy and when I am not." Another person told us, "I would definitely complain if I weren't happy, but I have nothing to complain about."

Staff were aware of what to do if any of the people using the service wanted to make a complaint. They told us they would support people who used services or others acting on their behalf to make comments and complaints, where and when appropriate.

About CQC inspections

We are the regulator of health and social care in England.

All providers of regulated health and social care services have a legal responsibility to make sure they are meeting essential standards of quality and safety. These are the standards everyone should be able to expect when they receive care.

The essential standards are described in the Health and Social Care Act 2008 (Regulated Activities) Regulations 2010 and the Care Quality Commission (Registration) Regulations 2009. We regulate against these standards, which we sometimes describe as "government standards".

We carry out unannounced inspections of all care homes, acute hospitals and domiciliary care services in England at least once a year to judge whether or not the essential standards are being met. We carry out inspections of other services less often. All of our inspections are unannounced unless there is a good reason to let the provider know we are coming.

There are 16 essential standards that relate most directly to the quality and safety of care and these are grouped into five key areas. When we inspect we could check all or part of any of the 16 standards at any time depending on the individual circumstances of the service. Because of this we often check different standards at different times.

When we inspect, we always visit and we do things like observe how people are cared for, and we talk to people who use the service, to their carers and to staff. We also review information we have gathered about the provider, check the service's records and check whether the right systems and processes are in place.

We focus on whether or not the provider is meeting the standards and we are guided by whether people are experiencing the outcomes they should be able to expect when the standards are being met. By outcomes we mean the impact care has on the health, safety and welfare of people who use the service, and the experience they have whilst receiving it.

Our inspectors judge if any action is required by the provider of the service to improve the standard of care being provided. Where providers are non-compliant with the regulations, we take enforcement action against them. If we require a service to take action, or if we take enforcement action, we re-inspect it before its next routine inspection was due. This could mean we re-inspect a service several times in one year. We also might decide to re-inspect a service if new concerns emerge about it before the next routine inspection.

In between inspections we continually monitor information we have about providers. The information comes from the public, the provider, other organisations, and from care workers.

You can tell us about your experience of this provider on our website.

How we define our judgements

The following pages show our findings and regulatory judgement for each essential standard or part of the standard that we inspected. Our judgements are based on the ongoing review and analysis of the information gathered by CQC about this provider and the evidence collected during this inspection.

We reach one of the following judgements for each essential standard inspected.

✓ **Met this standard**

This means that the standard was being met in that the provider was compliant with the regulation. If we find that standards were met, we take no regulatory action but we may make comments that may be useful to the provider and to the public about minor improvements that could be made.

✗ **Action needed**

This means that the standard was not being met in that the provider was non-compliant with the regulation. We may have set a compliance action requiring the provider to produce a report setting out how and by when changes will be made to make sure they comply with the standard. We monitor the implementation of action plans in these reports and, if necessary, take further action. We may have identified a breach of a regulation which is more serious, and we will make sure action is taken. We will report on this when it is complete.

✗ **Enforcement action taken**

If the breach of the regulation was more serious, or there have been several or continual breaches, we have a range of actions we take using the criminal and/or civil procedures in the Health and Social Care Act 2008 and relevant regulations. These enforcement powers include issuing a warning notice; restricting or suspending the services a provider can offer, or the number of people it can care for; issuing fines and formal cautions; in extreme cases, cancelling a provider or managers registration or prosecuting a manager or provider. These enforcement powers are set out in law and mean that we can take swift, targeted action where services are failing people.

How we define our judgements (continued)

Where we find non-compliance with a regulation (or part of a regulation), we state which part of the regulation has been breached. Only where there is non compliance with one or more of Regulations 9-24 of the Regulated Activity Regulations, will our report include a judgement about the level of impact on people who use the service (and others, if appropriate to the regulation). This could be a minor, moderate or major impact.

Minor impact - people who use the service experienced poor care that had an impact on their health, safety or welfare or there was a risk of this happening. The impact was not significant and the matter could be managed or resolved quickly.

Moderate impact - people who use the service experienced poor care that had a significant effect on their health, safety or welfare or there was a risk of this happening. The matter may need to be resolved quickly.

Major impact - people who use the service experienced poor care that had a serious current or long term impact on their health, safety and welfare, or there was a risk of this happening. The matter needs to be resolved quickly

We decide the most appropriate action to take to ensure that the necessary changes are made. We always follow up to check whether action has been taken to meet the standards.

Essential standard

The essential standards of quality and safety are described in our *Guidance about compliance: Essential standards of quality and safety*. They consist of a significant number of the Health and Social Care Act 2008 (Regulated Activities) Regulations 2010 and the Care Quality Commission (Registration) Regulations 2009. These regulations describe the essential standards of quality and safety that people who use health and adult social care services have a right to expect. A full list of the standards can be found within the *Guidance about compliance*. The 16 essential standards are:

- Respecting and involving people who use services - Outcome 1 (Regulation 17)
- Consent to care and treatment - Outcome 2 (Regulation 18)
- Care and welfare of people who use services - Outcome 4 (Regulation 9)
- Meeting Nutritional Needs - Outcome 5 (Regulation 14)
- Cooperating with other providers - Outcome 6 (Regulation 24)
- Safeguarding people who use services from abuse - Outcome 7 (Regulation 11)
- Cleanliness and infection control - Outcome 8 (Regulation 12)
- Management of medicines - Outcome 9 (Regulation 13)
- Safety and suitability of premises - Outcome 10 (Regulation 15)
- Safety, availability and suitability of equipment - Outcome 11 (Regulation 16)
- Requirements relating to workers - Outcome 12 (Regulation 21)
- Staffing - Outcome 13 (Regulation 22)
- Supporting Staff - Outcome 14 (Regulation 23)
- Assessing and monitoring the quality of service provision - Outcome 16 (Regulation 10)
- Complaints - Outcome 17 (Regulation 19)
- Records - Outcome 21 (Regulation 20)

Regulated activity

These are prescribed activities related to care and treatment that require registration with CQC. These are set out in legislation, and reflect the services provided.

Glossary of terms we use in this report (continued)

(Registered) Provider

There are several legal terms relating to the providers of services. These include registered person, service provider and registered manager. The term 'provider' means anyone with a legal responsibility for ensuring that the requirements of the law are carried out. On our website we often refer to providers as a 'service'.

Regulations

We regulate against the Health and Social Care Act 2008 (Regulated Activities) Regulations 2010 and the Care Quality Commission (Registration) Regulations 2009.

Responsive inspection

This is carried out at any time in relation to identified concerns.

Routine inspection

This is planned and could occur at any time. We sometimes describe this as a scheduled inspection.

Themed inspection

This is targeted to look at specific standards, sectors or types of care.

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Agenda Item 9

Committee(s):	Date(s):
Audit and Risk Management Committee	11 th December 2013
Subject: Independent Review of Risk Management –Development and Implementation of Action Plan	Public
Report of: Chamberlain	For Information
Summary <p>The Independent Review of Risk Management made 40 recommendations to improve further the effectiveness of risk management within the Corporation. 25 of these recommendations have been considered and are currently being worked on, with actions now being incorporated into the risk management improvement plan. The updated risk management improvement plan will be considered by the Chief Officer's Summit group on 9th December 2013 and subsequently reported to the Audit and Risk Management Committee on 28th January 2014. The adoption and implementation of the remaining 15 recommendations from the independent review will be considered following the agreement and implementation of the revised Risk Management Handbook, renamed as the Risk Management Strategy, and implementation of the risk register software in April 2014. Scheduling of all activities has been considered to allow sufficient planning and discussion with departments to enable wider engagement and ownership of new methodologies.</p> <p>The updated Risk Management Improvement Plan will set out a range of activities to enhance the design and effectiveness of the City's risk management arrangements including departmental engagement, training sessions, risk workshops and internal communications.</p> <p>Activities currently in progress, include a review of the officer risk management groups, the introduction of a corporate risk register software, consideration of moving from the current 5x5 Risk Matrix to a 4x4 Risk Matrix, and a 'blank paper' exercise to review and refresh the Strategic Risk Register with the Chief Officers Group on 4th December 2013.</p> Recommendations Members are asked to note the update report.	

Main Report

Background

1. An independent review was undertaken by Zurich Municipal, over the Summer period, with their scope of work including the review the Risk Management Handbook, Improvement Plan, the Strategic Risk Register and the Departmental Risk Registers. 16 key findings were noted and 40 recommendations made to further improve the effectiveness of risk management, which was reported at the Audit and Risk Management Committee on 15th October 2013. All 40 recommendations have been considered and actions to date are highlighted within this report.

Current Position

2. The independent review made 40 recommendations all of which have been reviewed and being finalised within the risk management improvement plan. 25 of these recommendations are in progress and being reviewed with departments, with results being drafted in to the revised risk management handbook, which will be renamed as the risk management strategy.
3. The adoption and implementation of the remaining 15 recommendations will be considered following the approval and implementation of the Risk Management Strategy and implementation of the risk register software, in April 2014. By pacing out the review of the recommendations, many of which currently exist within the original risk management improvement plan, there has been wider engagement with departments across the Corporation enabling a greater ownership and understanding of new methodologies. Consideration of the remaining 15 recommendations will build on this foundation and enable wider discussions on the best way forward to implement these so that they are fit for the Corporation.
4. The updated Risk Management Improvement Plan will set out a range of activities to enhance the design and effectiveness of the City's Risk Management arrangements including departmental engagement, training sessions, risk workshops and internal communications. A draft version of the Risk Management Strategy and the revised Risk Management Improvement Plan will be included at the January Audit and Risk Management Committee.
5. The below table highlights the recommendations made and comments on our activity and consideration to date.

Recommendations from the Independent Review	Status	Comments
<i>Risk Management Handbook</i>		
1. Introduce aide-memoire or fact sheet for practitioners to complement Handbook.	To be scheduled following launch of Risk Management Handbook planned for April 2014.	To be implemented following publication of the revised Risk Management Handbook.

2. Add further detail to responsibilities e.g. how the Court of Common Council assumes “overall accountability for risk management.”	In Progress	To be reviewed and included within the revised Risk Management Handbook.
3. Further define terms e.g. business, strategic and operational risk.	In Progress	To be reviewed and included within the revised Risk Management Handbook.
4. Clarify risk maturity model including assessment techniques/measurement criteria.	In Progress	To be implemented following publication of the revised Risk Management Handbook.
5. Review risk scoring matrix impact indicators to ensure that there are no gaps / overlaps	In Progress	Revised risk scoring methodology is currently being reviewed and scheduled to be brought to the January 2014 Audit and Risk Management Committee for agreement.
6. Identify more two-way processes to encourage open risk communication and identification of departmental issues.	In Progress	Clearer structures for risk reporting have been agreed and the introduction of a risk register software will encourage open communication and identification of departmental issues. Detailed timescales for the introduction of risk software are to be established however, current assumption are that it will be in working operation from April 2014.
<i>Risk Improvement Plan</i>		
7. 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.	In Progress	Draft reporting guidelines will be illustrated within revised Risk Management Handbook whilst still requiring a consistency of scoring risk across departments.
8. Identifies need to “determine the risk appetite” - need to	To be considered following	Recommendation to be considered further by the Strategic Risk Management

set some achievable parameters.	adoption of the revised Risk Management Handbook	Group (SRMG) and Chief Officers as to practical definition of risk appetite parameters in some areas.
9. Refers to putting risks into groups of strategic, operational and corporate risks – distinction between the groups needs to be clarified to avoid overlap.	In Progress	Risk Register software, when agreed, will assist in avoiding overlaps between Departmental Strategic and Operational risks, against the Corporate risks, which will be the name proposed for the current Strategic risks.
10. 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.	In Progress	Concept of opportunity risk will be introduced in the Revised Risk Management Handbook, although primary focus will remain on the threat risks being managed.
<i>Strategic Risk Register</i>		
11. 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'.	In Progress	Risk Workshop being held with the Chief Officers Group on 4 th December 2013 to review the Strategic Risk Register. Following this workshop a new set of Strategic Risks may be identified. A comparative review will then follow to determine if the Independent review risks are better suited at the departmental or Strategic level, if not already identified.
12. 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'		

<p>13. Supply Chain Failure. Increasingly complex procurement and supply chain arrangements.</p> <p>14. Safeguarding. May be relevant in terms of delivery of statutory social care services.</p> <p>15. Business Transformation / Workforce Planning. Resource constraints leading to changes in internal structures and the way that services are delivered.</p>		
<p>16. SR 8 Negative publicity and damage to the City Corporation's reputation – consider adding further detail around causes or the consequences.</p>	<p>In Progress</p>	<p>New risk register template will be created to capture 'cause' and 'effect' for all risks to ensure a more consistent approach to recording risk information.</p>
<p><i>Departmental Risk Registers</i></p>		
<p>17. 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.</p>	<p>To be addressed following approval and adoption of new Risk Management handbook and implementation of new software.</p>	<p>Training sessions to be arranged following publication of the revised Risk Management Handbook.</p>
<p><i>Risk Matrix and Risk Appetite</i></p>		
<p>18. Senior managers should ensure that innovative and considered risk taking is fostered within key projects.</p>	<p>In Progress</p>	<p>Recommendation to be reviewed further with Corporate Project Management team.</p>
<p>19. Element of risk appetite identification could be tested, against selected corporate priorities and/or risks. Partial/pilot risk</p>	<p>To be considered and scheduled following approval and</p>	<p>Recommendation to be considered further by SRMG and Chief Officers as to how a practical definition of risk appetite parameters can be</p>

appetite exercise could be developed to facilitate this.	adoption of new Risk Management handbook and implementation of new software	derived in some areas
20. More comprehensive risk appetite exercise could be undertaken later with perception surveys and/or a facilitated exercise.		
21. Review of the risk matrix and scoring criteria would be beneficial e.g. 4x4 matrix to ensure all practitioners find it easy to apply.	In Progress	Risk Matrix is currently being reviewed, looking at both the current 5x5 version against a new 4x4 version. Chief Officers Summit Group will review the proposal's on 9 th January 2014 on current SRMG recommendation to move to a 4x4 Risk Matrix. Update on this will be provided at the January Audit and Risk Management Committee.
<i>Consistency of Approach</i>		
22. Undertake formal debate around consistency of approach across departments. Would allow for parameters and exceptions to be identified.	In Progress	Clearer structures for risk reporting have been agreed and the introduction of a risk register software will allow for parameters and exceptions to be identified.
23. Develop risk management competency assessment and training programme. Consider further risk identification ("blank paper") exercises.	In Progress	Training sessions to be arranged following revision of the Risk Management Handbook. Risk identification ("blank paper") exercises to be rolled out following approval and installation of a risk register system. 'Blank paper' exercise is planned for the Chief Officer Group meeting on the 4 th December 2013.
24. Develop simplified risk guide to complement the Handbook.	To be scheduled following launch of Risk Management Handbook planned for April 2014.	As per point 1, to be implemented following publication of the revised Risk Management Handbook.

<i>Reporting and Escalation</i>		
25. Defined escalation criteria and process should be simple, clear and understood.	In Progress	Clearer structures for risk reporting have been agreed. This item will be included with the planned risk management training session, per point 17.
26. Audit & Risk Management Committee could be briefed on top departmental risks alongside the Strategic Risk Register at periodic intervals.	To be progressed following successful implementation of risk register software	Practical implementation of recommendation to be considered following implementation and roll-out of the Risk Register Software.
27. Undertake more consistent and robust approach to horizon scanning.	To be considered following adoption of revised risk management handbook planned for April 2014.	Practical implementation of recommendation to be considered.
28. Focus of any risk software introduced should be on supporting and enabling risk management.	In Progress	This has been included as one of the key success criteria of the proposed risk management system. Departments have been engaged and will be part of the decision making process for any risk software.
29. Introduce formal process for escalating key project risks on to Departmental and Strategic Risk Registers.	To be progressed following successful implementation of risk register software planned for April 2014	Recommendation to be reviewed following risk register software implementation, as it will also need to align with the Corporation's Project Management Methodology.
<i>Risk Management Groups</i>		
30. Monitor and review how effectively they support the risk management process.	In Progress	Recommendation has been considered and risk structures have been revised to support the risk management process.
31. Revised Handbook / Strategy should incorporate structure of groups, with roles and reporting lines.	In Progress	Draft structure of groups, with roles and reporting lines and guidelines will be illustrated within revised Risk Management Handbook.

32. Consider “critical success factors” within the Groups.	in the next 3 months.	To be progressed through re-drafting of Terms of Reference for the two officer risk management groups
<i>Reputation Risk</i>		
33. Vital that all changes to service delivery are considered in the context of risk appetite.	To be considered post April 2014	Practical implementation of recommendation to be considered.
34. Exercise could be undertaken to identify those risks with the potential for reputational impact.	To be considered post April 2014	Practical implementation of recommendation to be considered.
<i>Added Value and Dynamism</i>		
35. Undertake refresh of strategic and departmental risk registers.	In Progress	Risk Workshop being held with the Chief Officers Group on 4 th December 2013 to refresh the Strategic Risk Register. Departmental risks will be reviewed post implementation of risk register software.
36. Key policies and strategies should contain risk management consideration.	To be considered post April 2014	Practical implementation of recommendation to be considered.
37. Include risk management as a standing agenda items on relevant committee and management meetings.	To be considered post April 2014	Practical implementation of recommendation to be considered.
38. Consider making risk management part of overall performance and competency reviews.	To be considered post April 2014	Practical implementation of recommendation to be considered.
39. Undertake assurance mapping exercise to review controls.	In Progress	Pilot Assurance Mapping exercise underway with City of London Police, further roll-out planned for main departments in 2014/15.
40. Undertake a review of partnership and supply chain risks.	To be considered post April 2014	Practical implementation of recommendation to be considered.

Conclusion

6. Many of the recommendations from the independent review of risk management are already under active consideration with actions progressing. The introduction of the revised Risk Management Handbook, renamed as the Risk Management Strategy, will open the next stage of engagement with officers through management meetings, training sessions, risk workshops, internal communication and more.
7. A full update on all the recommendations from the review to be addressed will be included within the risk management improvement plan, scheduled for the Audit and Risk Management Committee on 28th January 2014.

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Committee:	Date:
Audit and Risk Management Committee	11 th December 2013
Subject:	Public
Internal Audit Update Report	
Report of:	For Information
Chamberlain	

Summary

This report provides an update on internal audit activity since the last Audit & Risk Management Committee on the 17th September 2013. It sets out the independent opinion of the Head of Internal Audit in relation to the adequacy and effectiveness of the control environment for those areas of internal audit work concluded since the last update report to Committee.

The outcomes from the five main audit reviews finalised since the last update are reported and significant risk issues highlighted. Two audit reviews resulted in Amber assurance ratings, which indicates there are significant audit findings which require mitigation and focused action by management.

Buildings Repairs and Maintenance Review – Amber Assurance

The Building Repairs and Maintenance review found the systems and controls in place in relation to the operation of the Mitie contract to be satisfactory and working in practice. It was noted that the contractor had failed to meet the target for completion of works within agreed timescales in each of the first 12 months of the contract, but an upward trend in performance was noted to a performance level of 91% by period 12 (June 2013) being close to the contracted target of 96% of jobs completed according to the job priority timescales. The City Surveyor has subsequently reported to internal audit that performance against this KPI (Key Performance Indicator) has shown further improvement and has now passed this requirement as from October 2013.

Further areas identified for improvement included the accuracy of management information and the way in which internal post completion inspections of Mitie's work are undertaken.

Chamberlain's Department: IS/IT Back-up arrangements – Amber Assurance

Internal Audit provided moderate assurance on the data backups performed by the IS division. Improvements were recommended in a number of priority areas to improve procedural documentation, widen the scope of the change control processes and improve the successful completion of back-ups. Since issuing the Final Audit Report, the current assurance rating can now be considered as substantial assurance (Green) as a result of sufficient progress being made in addressing change control and improving the successful completion of back-ups now operated by Agilisys.

Internal Audit Function Performance

Performance levels in implementing audit recommendations, assessed by formal follow-up reviews, have improved. There has been some improvement in two areas relating to the timely production of draft reports and issue of final reports, although the issuing of final report on a timely basis still requires some attention. Completion of the 2013/14 audit plan is still behind target. The City of London, Internal Audit Section is due to be reviewed externally by a London Borough (Peer Review) in the first quarter of 2014. This assessment will review the internal audit functions compliance with the new Public Sector Internal Audit Standards, with the outcome planned to be reported to the May Committee.

Internal Audit Resources

Additional interim resources (2 senior auditors) have been obtained to enable delivery of the audit plan to be accelerated in the last 4 months of the year. Permanent replacements for two senior auditors who have left the section in the last two months, have been recruited and are expected to commence work early in the New Year.

Recommendation

Members are asked to note the update report.

Main Report

Key Audit Findings

1. Since the last update to the Audit & Risk Management Committee in September 2013, five main audit reviews have been finalised. Two of these reviews resulted in Amber assurances for which the headline issues and consideration of impact is analysed in **Table 1**. Further details of these reports are provided in **Appendix 1**.

Table 1 – Key Audit Report Headlines

(details of recommendations in brackets)

City Surveyor's Department: Building and Repairs Maintenance (5 Amber, 4 Green)

Assurance Level : Amber, Impact : High

Materiality: corporate wide Building Repairs and Maintenance Contract which applies to all operational and investment properties, with an annual spend of £5m.

Key findings:

Overall, this review found the systems and controls in place in relation to the operation of the Building Repairs and Maintenance contract with Mitie, to be satisfactory and working in practice. It was noted that the contractor had failed to meet the target for completion of works within agreed timescales in each of the first 12 months of the contract, but an upward

Table 1 – Key Audit Report Headlines

(details of recommendations in brackets)

trend in performance was noted to a performance level of 91% by period 12 (June 2013) being close to the contracted target of 96% of jobs completed according to the job priority timescales. The City Surveyor has subsequently reported to internal audit that performance against this KPI (Key Performance Indicator) has shown further improvement and has now passed this requirement as from October 2013.

Further areas identified for improvement included the accuracy of management information and the way in which internal post completion inspections of Mitie’s work are undertaken.

Management Response: All recommendations from this review have been agreed for implementation by February 2014.

Chamberlain’s Department: IS/IT Back-up arrangements (4 Amber, 1 Green)

Assurance Level : AMBER Impact : High

Materiality: IS Division and now Agilisys back-up the majority of City of London IS/IT systems to enable restoration of data should there be corruption or loss of data. Some City of London Institutional Departments have separate ICT arrangements.

Key Findings.

Internal Audit provided moderate assurance on the data backups as performed by the IS division. Improvements were recommended in a number of priority areas to improve procedural documentation, widen the scope of the change control processes and improve the successful completion of back-ups. Since issuing the Final Audit Report, the current assurance rating can now be considered substantial assurance ‘Green’ as a result of sufficient progress being made in addressing change control and improving the successful completion of back-ups now operated by Agilisys.

Management Response:

All recommendations from this review have agreed dates for implementation by February 2014 or earlier.

Current Position

2. In addition to highlighting these key issues arising from recent internal audit work, the three internal audit reviews identified in **Table 2** have been finalised and reported over the last three months with a Green Assurance rating. Audit report summaries from these reviews will be circulated separately to the Audit & Risk Management Committee and the Chairman and Deputy Chairman of the relevant Service Committee prior to the meeting. The detailed full internal audit report can be provided to members of this Committee on request.

Table 2 Green Assurance Audit Reviews	Red recs.	Amber recs.	Green recs.	Total
Chamberlains Department				
Treasury Management	-	-	4	4
PP2P savings verification	-	-	-	-
Department of Community and Children Services				
Financial Management	-	1	10	11

3. Internal audit work is conducted and reported in accordance with the Public Sector Internal Audit Standards with no impairment to independence or objectivity.

Audit Work Delivery

4. Work delivery of the 2013/14 plan, as at November 2013, is set out in **Table 3** below.

Table 3 – Audit Plan Progress	Current Plan	Not Started	Planning	Fieldwork	Draft Report	Final / Complete	% Completion
Full Reviews	99	38	9	19	6	27	33%
Spot checks & Mini Assurance Reviews	82	43	3	3	3	30	40%
Irregularity Investigations	3	2	0	1		0	0%
A&I/support reviews	3	0	0	2	0	1	33%
TOTAL	187	83	12	25	9	58	36%

5. Since the 2013/14 audit plan was agreed at the 5th February 2013 Audit and Risk Management Committee, there have been a number of changes which have been agreed with management. Since the last update report to Committee one audit review has been added to the audit plan for the current year, with three lower priority reviews deferred from the current year's audit plan due to the on-going impact on resources of investigation work.

Main Audit Reviews added to 2013/14 Audit Work Programme

Department

Review

Chamberlain's Department:

Business Rates – ICT Hosting

Main Audit Reviews removed from 2013/14 Audit Work Programme

Department	Review
Chamberlain's Department	Pensions : Corporate Responsibility
Open Spaces	Statutory obligations – Cemetery and Crematorium
Town Clerk's Department	Performance Development Framework

6. The reasons for changes since the plan was agreed are detailed in **Appendix 2**. This appendix sets out all Audit plan changes that have been made since the 2013/14 audit plan was agreed as a result of audit planning meetings with senior management and re-assessment of audit priorities, resources and suitable timing of audit work. Changes over the last 3 months are highlighted in bold within the Appendix.
7. The following main reviews are at draft reporting stage and will be reported to the Committee shortly:

Department	Review
Open Spaces	Fleet Management
Barbican Centre	Business Continuity Planning
Corporate Wide	Contractor Final Account Verification
City of London Police	City First Project
City Surveyors	Recoverable Works – Investment Properties

8. Details of main audit reviews planned for the next quarter (January 2014 to March 2014) can be provided to Members on request.

Internal Audit Section Performance

9. A review of the performance of the internal audit function is provided in **Appendix 3**. Analysis of audit days delivered for the 2013/14 planning period is provided in **Appendix 4**.
10. In summary, the performance level in implementing audit recommendations as assessed by formal follow-up reviews has improved. There has been some improvement in two areas relating to the timely production of draft reports and issue of final reports, although the issuing of final reports on a timely basis still requires some attention. Completion of the 2013/14 audit plan is still behind expected completion rates. Additional interim resources (2 senior auditors) have been obtained to enable delivery of the audit plan to be accelerated in the last 4 months of the year. Permanent replacements for two senior auditors, who have left the section in the last 2 months, have been recruited and are expected to commence work early in the New Year.

Development of the Internal Audit Section

11. The Audit Section is due to be reviewed by a London Borough in the first quarter of 2014 as part of the peer review scheme across London. This assessment will review the internal audit functions compliance with the new Public Sector Internal Audit Standards, with the outcome planned to be reported to the May Committee.
12. One senior auditor left the section in early September and another senior retired at the beginning of November. An external recruitment exercise has successfully identified two good candidates who are expected to join the section early in the New Year once work references are cleared and notice periods worked.

Conclusion

13. Internal audit's opinion on the City's overall internal control environment is that it remains adequate and effective. Some areas of control do need focused improvement by management, as identified in the amber assurance audit reports. As a result of additional investigation work, some areas of the audit plan have been re-prioritised or re-scheduled, with additional interim auditor resource now secured to maintain adequate audit coverage.

Appendices

- Appendix 1 – Audit Report Summaries
- Appendix 2 – 2013/14 Audit Plan Changes
- Appendix 3 – Review of Internal Audit Performance
- Appendix 4 – Audit Resource Analysis

Background Papers:

2013/14 Internal Audit Plan

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APPENDIX 1 –Amber Moderate Assurance Audit Review Outcomes

Audit: City Surveyors – Building repairs and maintenance – Amber 🚩 (5 x Amber, 4 x Green priority recommendations)

Audit Scope

As part of the Procure and Procure to Pay Project (PP2P), the City let a corporate wide Building Repairs and Maintenance Contract with Mitie Technical Facilities Management Limited (Mitie), with the contract term running from July 2012 to July 2017, at a cost of £5m per annum.

Audit Findings

Overall, this review found the systems and controls in place in relation to the operation of the Building Repairs and Maintenance contract with Mitie, to be satisfactory and working in practice, whilst some weakness and areas for improvement have been identified, with the most significant of these highlighted below.

Although there are adequate arrangements in place for monitoring work completion and the level of outstanding building repair and maintenance requests, the contractor failed to meet the target for Key Performance Indicator (KPI) 4, completion, set out in the contract as 96% of works to be completed within agreed timescales in each of the first 12 months of the contract. An upward trend in performance was noted following the third month of the contract operation where performance was the lowest at 17%, to a performance level of 91% by period 12 (June 2013). As at period 12, the overall 91% represents, 87% for Operational Properties, 90% for the Barbican, and 97% in respect of Investment Properties. An amber recommendation has been agreed that Contract Management should continue to work with Mitie to identify and resolve the key issues preventing proportions of allocated works being completed within target timeframes. The City Surveyor has subsequently reported to internal audit that performance against this KPI (Key Performance Indicator) has shown further improvement and has now passed this requirement as from October 2013.

This audit review confirmed that for the first few months of the contract, ensuring that appropriate priority levels were allocated to reactive building maintenance and repair requests has been challenging for the Property Service Desk. Analysis of data for the first 6 months of the contract indicated that requests classified as priority A, 1 or 2 (acute, emergency or urgent) was 67%, while the percentage for these same three priorities in periods 7 to 12 fell to 46%. It is therefore considered that the various changes introduced by the City Surveyor, and the resulting drop in requests classified as A, 1 or 2, could well explain the contractor's recent improvements in respect of KPI4. The changes included introducing a triage system to provide better guidance to departments and also the introduction of priority category 2A (serious repairs), increasing the number of priority options available.

Discrepancies were noted between the system used by the Contractor to show the percentage of requests attributed to each priority in each period (1 to 12) from the statistics reported by the contractor in regular Period Reports. Whilst it has not been possible to identify the reasons for this difference, internal audit concluded that the accurate provision of Management Information, in accordance with KPI1, may not have been achieved. Amber recommendations have been made to give consideration to introducing a mechanism for reporting failure against achievement of KPI1, the measure for which requires that the contractor provide timely and accurate management information and introducing checks to sample test the veracity of the underlying data.

The City Surveyor's Technical Advisory Group (TAG) maintain clear and detailed post completion inspection records which demonstrate that a reasonable level of coverage of inspections has been achieved. At the time of the audit, the TAG team has reviewed approximately 8% of all work completed by Mitie. These records also show that the standard of work completed by Mitie has generally been satisfactory but, nevertheless, amber recommendations were agreed in respect of improving the sample selection methods for inspection, introducing checks to ensure that the charges levied by Mitie in undertaking quoted works reasonably reflect the labour and materials used by Mitie and reducing the over reliance on desk based reviews, as this increases the risk that technical deficiencies in Mitie's work goes undetected.

Management Response

All five amber and four green priority recommendations from this review have been agreed for implementation by February 2014.

Audit: Corporate – City of London Back-up Review - Amber 🟡 (3 Amber, 6 Green priority recommendations)

Audit Scope and Background:

This assurance review comprises of two aspects, firstly to ensure the system backups while under the care of City of London (CoL) Information Systems (IS) were properly undertaken and identify areas of improvement, and secondly to review the adequacy of the backup process once Agilisys take over the function. This review focuses entirely on assurance of the first aspect where the backup function for the CoL was provided for by the CoL Information Systems (IS) division.

Audit Findings:

The result of the review is that Internal Audit provided moderate assurance on the data backups as performed by the IS division at the CoL. Improvements were recommended in a number of priority areas. As a result of sufficient progress being made in addressing change control and improving the successful completion of back-ups since issuing the Final audit Report , the current assurance rating can now be considered substantial assurance 'Green'.

Page 11
The main area in need of improvement is in the backup strategy, policies and procedures. The procedure documentation requires improvement and clarification in some areas, for which an amber priority recommendation has been agreed for implementation by February 2014.

Change Control is in place at a higher level such as when servers new are commissioned but it needed to be extended to ensure other back-up system changes do not have a detrimental impact such as reduction in the performance of IS systems used by the business. An amber priority recommendation was agreed and subsequently implemented to extend the scope back-up system changes subject to formal change control procedures.

The backup process as a whole functions adequately, however, the hardware struggles at times to successfully complete all required overnight backups (approximately 100 backups a night), and often this is associated with tape drive problems. Additional monitoring in this area is recommended to confirm precise causes with a view to reducing the causes of backup failures. Since this Amber priority issue was raised, Agilisys have reported that they have investigated the problem, and some hardware changes have been made, which has improved performance to over a 95% success rate. Further work to widen the bandwidth of data transfers to back-up systems will improve performance further and is due to be completed by the end of December 13. Historically the backup success rate has been acceptable at greater than 90% and this continues to be the unofficial standard. Overall this seems low and it needs to be reconsidered to ensure that is still acceptable.

Division of duty is adequately defined and operationally there is sufficient cover for staff absences. The logical security aspect of review resulted in only one minor recommendation and overall this area was found to be of an acceptable standard comparable to the leading industry practice. Password complexity and change is suitably enforced as a part of the greater CoL password security process.

Off-site procedures for tape transportation and storage to Data Protect UK are also suitably controlled with adequate physical security measures and environmental controls in place as well as comprehensive logging of tapes movements. Data Protect UK have been storing CoL tapes since 2004 and has a current Federation Against Copyright Theft (FACT) certification which requires strict physical security standards to be met annually. Data Protect UK offers a 1 hour tape return in an emergency.

The transfer of the support services and daily operations (including the backup function) to Agilisys commenced in September 2013 but the practical effect on data backups is not known currently, however, this will be assessed in the second part of the review.

Management Response

Nine recommendations were made comprising of 3 amber recommendations and 6 green recommendations which have all been accepted. All recommendations from this review have agreed dates for implementation by February 2014 or earlier.

2013/14 Audit Plan Changes since March 2013

1 –Reviews Cancelled/Deferred

Department	Main Review	Days	Deferred/ Cancelled	Reason
Chamberlain's	Pensions – Corporate Responsibility	10	Deferred to 2014/15	Re-scheduled to later in 2014/15 so to focus on new processes introduced as a result of changes in pension scheme from April 2014.
Open Spaces	Statutory obligations – Cemetery and Crematorium	5	Deferred to 2014/15	Re-prioritisation of resources to enable higher priority work to be completed, this routine compliance review re-scheduled to 2014/15.
Town Clerks	Performance Development Framework	10	Deferred to 2014/15	Re-prioritisation of resources to enable higher priority work to be completed, re-scheduled to 2014/15. Overall design of system known to have expected key controls.
Barbican	Value Frame Work (Techniques and Scoring)	20	Deferred to 14/15	Re-prioritisation of resources to enable higher priority work to be completed, significant audit coverage in this area recently
Built Environment	TFL Local Implementation Plan	15	Deferred to 14/15 (tbc)	Re-prioritisation of resources to enable higher priority work to be completed. Need for review to be re-assessed for risk.
Chamberlain's	Business Rates – Hosted	10	Cancelled	Review of limited value, following decision to re-configure service from October 2014
Community and Children's Services	SJC School – Procurement	5	Deferred	Re-prioritisation of resources to enable higher priority work to be completed. Significant recent audit coverage, management assurance to be discussed with Director of DCCS
Community and Children's Services	SJC Catering	5	Deferred	Re-prioritisation of resources to enable higher priority work to be completed. Significant recent audit coverage, management assurance to be discussed with Director of DCCS
Open Spaces	Procurement & VFM	10	Deferred	Re-prioritisation of resources to enable higher priority work to be completed. To be discussed

Changes to the Audit plan since September 2013 update are highlighted in bold.

Department	Main Review	Days	Deferred/ Cancelled	Reason
				with Director of OS
Town Clerks	Central Criminal Court – Premises Expenditure/Facilities Management	10	Deferred to 14/15	Re-prioritisation of resources to enable higher priority work to be completed. Other relevant audit work including review of Mitie contract.
Open Spaces	Golders Zoo	5	Deferred	Re-prioritisation of resources to enable higher priority work to be completed. Materiality low, need for review to be re-assessed
Barbican Centre	CSA - Interim Valuations (Barbican Centre)	15	Deferred to Qtr 1 14/15	re-prioritisation of resources to enable higher priority work to be completed, significant audit coverage in area recently
Corporate	Contract - Capital Project review	20	Cancelled	re-prioritisation of resources to enable higher priority work to be completed. Separate audit work on project management arrangements is providing assurance on capital projects by alternative means
Town Clerks	Website Strategy, Security and Operation	20	Cancelled	re-prioritisation of resources to enable higher priority work to be completed, responsibility now with Agillsys. Need for periodic review in this area to be re-assessed during audit planning for 2014/15.

2 – Additional Work













Review	Priority	Days	Reason
Chamberlain’s Department: Business Rates ICT Hosting – Due Diligence	High	10	Audit review re-scoped from originally planned operational process review. This review will be at a high level assessing the ICT hosting strategy, security and operation prior to planned service delivery changes in October 2014.
Various Departments: Cash Checks	High	40	Chamberlain request for additional assurance
City of London Police: Project Office	Medium	10	Request of Assistant Police Commissioner
City Surveyor’s Department: Investment Properties, settlement of claims	Medium	15 (tbc)	Review of controls and authorisation process, request of City Surveyor
Community and Children Services: Appointeeships - (Client Accounts)	High	20	Follow on from Client Account audit,
Guildhall School of Music & Drama: Assurance Mapping	Medium	5	Required to inform audit planning and provide more effective assurance to Senior Management and Members
Corporate Wide; Project Final Accounts Verification	Medium	25	Assurance over compliance with revised procedures operating in Department and within Financial Services Division.

Note: does not include changes to Museum of London and London Councils audit plan

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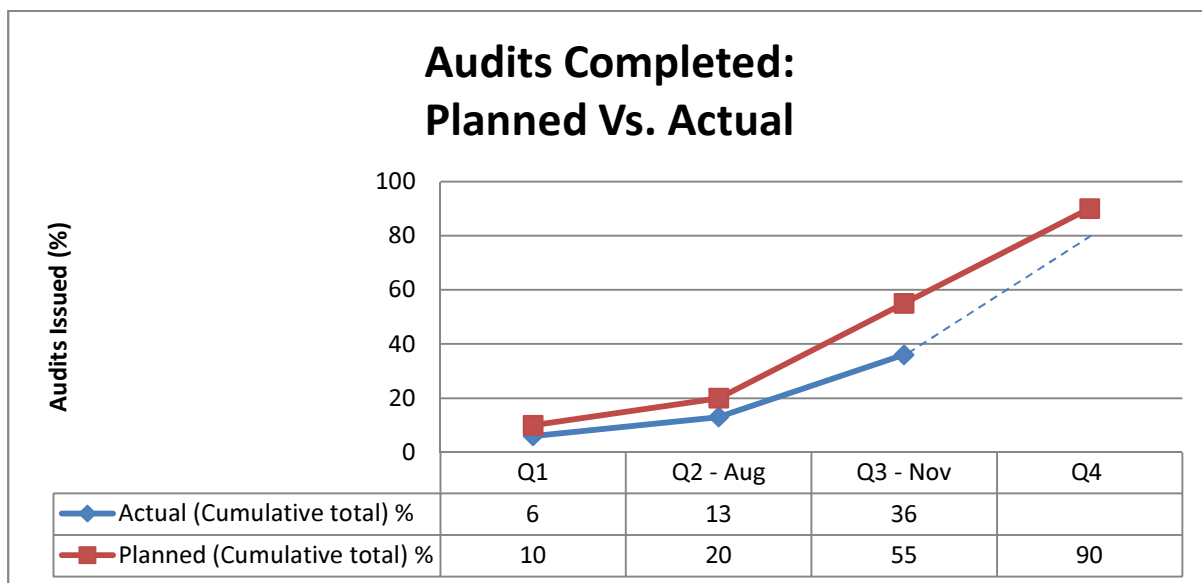
Review of Internal Audit Performance – November 2013

1. The following Key Performance Indicators are used for monitoring the Internal Audit section. Performance against these indicators is set out in the table below. Where targets have not been achieved, further comments on corrective action are provided after the table.

Performance Measure	Target	2013/14 Performance	Dec 13	Sept 13
Completion of audit plan	90% of planned audits completed to draft report stage by end of plan review period (31 st March 2014)	36% - below target due to resources allocated to substantial investigation work and recruitment delay, extra two temps now in place		
% recommendations confirmed fully implemented at time of formal follow-up	Overall – 75% Red – 100% Amber – 80% Green – 70%	Overall – 87% Red – 100% Amber – 92% Green – 84%		
Timely production of draft report	80% of draft reports issued within 4 weeks of end of fieldwork	79%		
Timely agreement and issue of final report	80% of final reports (including agreed management action plan) issued within 5 weeks of issue of draft report	70% - some delays in issuing final report, following receipt of management response.		
Customer satisfaction	Through key question on post audit surveys – target 90%	100%		
% of audit section staff with relevant professional qualification	- target 75%	77%		

2. **Completion of audit plan** – A graph is provided below to show delivery of the internal audit plan against the assumed profile of completion anticipated at the

start of year. Performance completion of the 2013/14 audit plan was 36% at November 2013.



3. There has been a small reduction in audit resource availability because of a vacancy from the 1st April until the 17th June which has been filled with an audit apprentice. There was a larger than anticipated carry forward of audit work from 2012/13 due to one auditor vacancy, a higher level of investigation work and some audit reviews taking longer than their planned day allocations. Additional unplanned cash checks, taking an additional 40 auditor days, have been undertaken at a number of departments in the first part of 2013/14, and significant investigation activity has continued with 256 days spent on this activity so far, 8 months into the financial year compared to an estimated annual allocation of 239 days.
4. As reported in the last internal audit update report, the impact of the additional work in the first part of 2013/14 has been assessed and audit plans for the remainder of the year have been re-prioritised in some areas.
5. Due to the impact of additional investigation work on delivery of the planned audit programme, and 2 senior auditor vacancies that have arisen in the last 2 months, two interim senior auditors have been recruited to work until the end of the financial year. There has also been a successful recruitment campaign run for two permanent senior auditors, who are expected to start work at the beginning of the new year once final reference checks are cleared. This will significantly increase the internal audit resource available to deliver the remainder of the audit plan over the remaining part of the financial year.
6. The current internal audit plan was reviewed in August and a number of lower priority reviews identified for deferment or cancellation. A few further adjustments to the plan have been made in the Autumn which are provided in **Appendix 2**.
7. **Implementation of Recommendations** – Overall implementation of audit recommendations as measured by formal follow-up reviews undertaken over the last year is now at 87%. Recent formal follow-up activity is showing a

much improved implementation rate which is now being reflected in this performance measure. Further analysis of performance in this area is provided in the separate audit recommendations follow-up report along with action being taken to reinforce this performance expectation with chief officers.

8. **Timely production of draft report** – performance in issuing draft reports within four weeks of end of fieldwork is just below target at 79%; performance in this area has improved since last Quarter.
9. **Timely agreement and issue of final report** – as reported in the last quarter, performance in finalising Internal Audit work within 5 weeks of the issue of the Draft report continues to be below the target level (70% this quarter, previous quarters performance was 65%). Although in the vast majority of the cases the delay beyond the target days is not excessive, this area will continue to be closely monitored.
10. The timely reporting and agreement of audit reports are areas where the Committee has commented on the need to improve performance previously. Whilst performance has improved on both indicators since the last quarter, maintaining a consistent level of performance requires on-going focus. The internal audit section has recently introduced an updated internal audit reporting format. This shorter, exception style of reporting should enable draft audit reports to be produced and agreed with management more quickly.

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Appendix 4 – Internal Audit Resource Analysis (1st April 2013 to 1st November 2013)

	Original Plan Budget (Days)	Expected to Date (Days)	Actual to Date (Days)
Gross Days	3861	2302	2148
Uncontrollable Days			
Bank Holidays	106	63	60
Annual Leave	456	272	297
Net Available Days	3299	1967	1791
Days available for direct audits and support work Available for Projects			
Main Reviews/Spot Checks	1400	880	363
Follow-up's	100	60	46
2012/13 Plan C/fwd	180	180	293
	1877	1119	701
Risk Management			
Corporate Risk Management	148	88	91
Ad hoc on-demand support/advice (risks & controls)	128	76	66
Chamberlain Business Continuity Support	5	3	3
Anti-Fraud & Corruption			
Fraud Investigations	239	142	256
Pro-active fraud & prevention	74	44	10
Audit Planning & Reporting			
Audit Planning & Reporting	49	29	21
Audit Plan progress reporting	51	30	36
External Audit Liaison/Co-ordination	10	6	8
Efficiency & Performance Review			
Support to Efficiency Board/EPSC	35	21	34
Officer Groups (Information management, Information Liaison, Transport Groups)	17	10	14
Audit Development			
Continuous Improvement	64	38	14
Audit policy, research and development	56	33	22
Audit intranet	3	2	2
Member Support			
COL Audit & Risk Management Committee	28	17	66
GSMD Audit & Risk Management Committee	6	4	4
London Councils - Audit Committee	6	4	2
Museum of London - Audit Committee	6	4	4
Police Performance & VFM Committee	3	2	4
Barbican Centre Risk/Finance Committee	6	4	5
	934	557	662

Admin Support

General (e.g. time recording/staff meetings/staff monitoring)*	236	141	256
MK Audit Automation Software	15	9	21
Other Absences**	104	62	51
Audit Training***(including Apprentice College release)	80	48	70
Corporate Training	18	11	10
CIPFA & IIA Training	35	21	20

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* includes running recruitment campaigns and office move

** sickness /medical appointments/City volunteering/Jury Service

Committee(s):	Date(s):
Audit & Risk Management Committee	11 th December 2013
Subject: Internal Audit Recommendations Follow-up	Public
Report of: Chamberlain	For Information

Summary

This report provides an update on the implementation of audit recommendations by management since the last update, provided to the Audit & Risk Management Committee on the 17th September 2013.

Seven formal audit review follow-ups have been concluded since the September Committee with 94% of recommendations fully implemented at the time of follow up. At the end of November 2013, there are no outstanding red priority actions from reviews previously concluded and reported to this Committee. The formal follow-up of the Department of Children and Community Services: Appointeeships and Deputyships review has confirmed that all 28 recommendations have been implemented. This had previously been reported as having red limited assurance.

Cumulative performance in the implementation of audit recommendations over the last 24 months, has been monitored with 75% of audit recommendations confirmed as implemented, when formal audit follow-ups were undertaken. Where red and amber priority recommendations were still to be implemented at the time of audit follow-up, further updates have been sought from management to confirm the implementation of red and amber priority recommendations.

Management status updates on all agreed red and amber actions is provided in **Appendix 2**. The trend in implementation of amber recommendations promptly following the agreement of internal audit reports is reducing the number of open amber priority recommendations that need to be monitored.

Targeted follow-up with Chief Officers is in place to ensure that the importance of keeping to the originally agreed timescales for the implementation of recommendations is understood and that, where revised timescales have already been agreed, that those timescales are adhered to. Since October 2013, this information has been fed into the Deputy Town Clerk's in-year performance review meetings with Chief Officers and will be included in Chief Officer's performance appraisals at year end.

A further development of the MK audit automation software is enabling Departments to provide direct updates on the implementation of recommendations and for them to be provided automated e-mail reminders. Pilots have now gone live in the Department of Community and Children Services and Open Spaces Department.

In addition to the 8 amber open actions, there are 208 open green priority actions as of November 2013.

Members are asked to:

- Note the recommendations follow-up report
- Note the actions being taken to improve performance in ensuring originally agreed timescales for the implementation of recommendations are achieved.

Main Report

Formal Audit Follow-ups

1. Details of the three audit review follow ups concluded since the September 2013 update to the Committee are set out in Appendix 1, along with comments on where internal audit recommendations were yet to be implemented. The formal follow-up of the Department of Children and Community Services: Appointeeships and Deputyships review has confirmed that all 28 recommendations have been implemented. This had previously been reported as only having red limited assurance.
2. Cumulative performance in the implementation of audit recommendations measured by all formal follow-up reviews over the last 24 months is reported to the Audit and Risk Management Committee. As at November 2013, cumulative performance in the implementation of audit recommendations when formal audit follow-ups were undertaken, over the last 24 months, is as follows:-

Implementation at time of audit follow-up	Red	Amber	Green	Total
Recommendations Agreed	9	115	288	412
Recommendations Implemented	8	84	215	307
% implemented	89%	73%	75%	75%

3. Where red and amber priority recommendations were still to be implemented at the time of formal audit follow-up, further updates have been sought from management to confirm the implementation of red and amber priority recommendations. The one red priority recommendation that was not implemented at formal follow up stage last year and reported to the March 2012 Committee, was implemented subsequently. At the end of November 2013, there are no outstanding red priority actions from follow-up reviews previously concluded and reported to this Committee.

Red and Amber Priority Recommendations Status

4. In addition to this formal audit follow-up process, internal audit obtains status updates from recommendation owners on a quarterly basis for any open red or amber priority recommendations. The outcome from these status checks are reported in Appendix 2 and summarised in the following table. All recommendations owners are keeping internal audit updated on any delays in implementing recommendations, with the Head of Internal Audit only agreeing to revision of implementation dates where justifiable prior to the agreed date being passed.
5. There are currently no open red priority actions as these are nearly always implemented before or very soon after internal audit work is finalised. Similarly the trend in implementation of amber recommendations promptly, following the agreement of internal audit reports, is reducing the number of open amber priority recommendations that are being monitored. There are currently eight open amber priority recommendations, when at a similar point last year 20 amber recommendations were open. This table does not include amber actions agreed and subsequently implemented.

Open Amber/ Red actions	Total	On-track per original agreed dates	Revised target date compared to original				Revised date to be agreed	Implementation Planned in future		
			1-3 mths	4-6 mths	7-12 mths	12 + mths		Next 3 mths	Next 4 to 6 mths	More than 6 mths
Red	-	-	-	-	-	-	-	-	-	-
Amber	8	-	3	1	2	2*	1	6	-	1
Total.	8	-	3	1	2	2	1	6	-	1

* Details of the two amber priority recommendations where the revised target dates exceed by 12 months the original agreed date are as follows:- (Additional information is in Appendix 2):-

- Open Spaces - Chingford Golf Course - recommendation to market test the management contract has been delayed pending developments and optional appraisal relating to the future of the site. The Epping Forest Committee agreed on the 8th July 2013 to complete a tendering exercise for the running of the site. A specification and contract for tendering was developed and assessed, however, CLPS then advised that as most Golf Professionals are directly employed a tender process is unlikely to yield a sufficient range of competitive quotations. Consultation is now underway on the legal and human resource implications of either direct employment or negotiations with the current contract holder. A new timescale for completion of this exercise is dependent on the result of these discussions, the plan is to have an agreed way forward by the end of January 2014.
- City Bridge Trust – Additional verification audit checks had been recommended by internal audit. A paper on proposed changes to how monitoring visits was agreed at the October 2013 CBT meeting. This included a section on proposed compliance visits which would include additional verification checks. Internal audit have provided assistance in scoping these additional checks which are to be introduced from December 2013.

Implementation of Recommendations according to agreed timescales

6. At previous meetings, the Chairman and Members agreed that, whilst timescales for implementation should be realistic, deadlines should only slip in extreme circumstances. Members noted that the Chairman would email officers or call them to account at the Audit and Risk Management Committee, in the event of non-compliance.
7. Targeted follow-up with Chief Officers is in place to ensure that the importance of keeping to the originally agreed timescales for the implementation of recommendations is understood and that, where revised timescales have already been agreed, that those timescales are adhered to. Since October 2013, this information has been fed into the Deputy Town Clerk's in-year performance review meetings with Chief Officers and will be included in Chief Officer's performance appraisals at year end.
8. A more robust approach is being adopted to challenge recommendation owners on the basis that slippage should only occur in exceptional circumstances in line with Committee's expectations to ensure that realistic implementation dates are set when recommendations are agreed at the end of audit reviews.
9. A further development of the MK audit automation software is enabling Departments to provide direct updates on the implementation of recommendations and for them to be provided automated e-mail reminders. Pilots have now gone live in the Department of Community and Children Services and Open Spaces Department.
10. A further analysis of the implementation of audit recommendations according to originally agreed timescales will be undertaken at the financial year end, the results of which will be reported to this Committee and used to inform Chief Officer end of year appraisals.

Conclusion

11. There is a very high level of acceptance of internal audit recommendations, although historical implementation according to the originally agreed timescales has often not been achieved and requires improvement. Internal audit work focused on obtaining status update information from management of open recommendations is ensuring appropriate management attention is given to completing agreed audit actions. The trend in implementation of amber recommendations promptly, following the agreement of internal audit reports, is reducing the number of open amber priority recommendations that are being monitored.

Appendices

- **Appendix 1 – Formal Audit Follow-up reviews**
- **Appendix 2 – Red and Amber actions status update**
- **Appendix 3 – Audit Follow-up process and recommendation priority definitions**

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Audit Follow-ups September to November 2013					Recommendations Agreed				Recommendations Implemented				Appendix 1
Department	Audit Review	Main Report Finalised	Follow up Date	Assurance level	R	A	G	Tot	R	A	G	Tot	Exception Comments
DCCS	Appointeeships and Deputyships	Jul-13	Nov-13	Red	3	15	10	28	3	15	10	28	All recommendations implemented
DCCS	Housing Recoverable Works	May-12	Oct-13	Green	0	0	4	4	0	0	2	2	<p>Two recommendations were found to be partially implemented at the time of follow-up.</p> <p>One green priority recommendation related to the introduction of a mechanism for flagging planned maintenance to officers within the Responsive Repairs section to minimise the risk of duplication of work. We are advised that the Technical Services Department has opted to provide this information via asset maintenance software, in the process of being implemented. In the meantime repairs staff have been provided with details of the revenue estimates for reference when taking repair calls so they are aware of planned maintenance works.</p> <p>The second green priority recommendation relates to introducing regular liaison meetings between the Service Charge and Revenue Manager and/or Home Ownership Section staff, and officers from the technical department regarding the progress of projects and the value of work completed to date. We note that projects are now a standard agenda item for monthly management meetings and that project information has now been uploaded into Project Vision as a means of disseminating information. Training of Estate management staff in the use of Project Vision has yet to take place.</p>
City Surveyors	Glen House Refurbishment	Mar-12	Oct-13	Green	0	2	5	7	0	2	5	7	All recommendations implemented
DCCS	Beech Gardens	Aug-12	Sep-13	Green	0	0	1	1	0	0	1	1	All recommendations implemented
Mansion House	Supplies and Services	Feb-13	Nov-13	Green	0	0	2	2	0	0	2	2	All recommendations implemented
CLS	Premises Related Expenditure	Apr-13	Sep-13	Green	0	1	6	7	0	1	5	6	One green priority recommendation related to the prompt submission of energy meter readings was found to be partially implemented. We understand that some problems have been experienced recently with 'Systemslink' and the School is working with the Energy Team to resolve these issues. A meeting is being arranged with the Energy Team. As a backup meter readings are always available from the SMART system.

Audit Follow-ups September to November 2013					Recommendations Agreed				Recommendations Implemented				Appendix 1
Department	Audit Review	Main Report Finalised	Follow up Date	Assurance level	R	A	G	Tot	R	A	G	Tot	Exception Comments
DBE	Building Fees and Charges	Jul-12	Nov-13	Green	0	0	5	5	0	0	5	5	All recommendations implemented

Audit Actions Status - based on Management reports - as at 22/11/13				Open Red & Amber		Comments	Open Red & Amber Actions			Revised target date compared to original date (for live reds / ambers)				Planned Implementation date		
Department	Audit Review	Main Report Finalised	Assurance level	R	A		On target to Orig Date	Revised Dates agreed	Revised to be agreed	1 to 3 mths	4 to 6 mths	7 to 12 mths	12 mths plus	<3 mths	3 - 6 mths	> 6 mths
Open Spaces	Chingford Golf Course	Aug-10	Amber	0	1	Recommendation to market test the management contract has been delayed pending developments and optional appraisal relating to the future of the site. The Epping Forest Committee agreed on the 8th July 2013 to complete a tendering exercise for the running of the site. A specification and contract for tendering was developed and assessed, however, CLPS then advised that as most Golf Professionals are directly employed a tender process is unlikely to yield a sufficient range of competitive quotations. Consultation is now underway on the legal and human resource implications of either direct employment or negotiations with the current contract holder. A new timescale for completion of this exercise is dependent on the result of these discussions, the plan is to have an agreed way forward by the end of January 2014.			1			1				
Markets and Consumer Protection	Markets Car Parks	Apr-12	Green	0	1	One amber priority recommendation is outstanding in respect of addressing the poor quality of management information available from the car park barrier system at Smithfield. The barrier equipment replacement is included in the procurement of the off-street car park management contract. The current contract (with APCOA) has been extended until 30 November 2014 (ratified at Court of Common Council on 16 May 2013). Therefore the replacement equipment will not now take place until 2014/15 when the new off street car park contract is let.		1			1				1	
Town Clerks	City Bridge Trust Due Diligence	Oct-12	Amber	0	1	Additional verification audit checks had been recommended. A paper on proposed changes to how monitoring visits are structured is being prepared as part of the Quinquennial Review. This includes a section on proposed compliance visits which would include additional verification checks to be introduced from October 2013. Internal audit provided assistance in scoping these additional checks which are to be introduced from November 2013 (tbc).		1				1	1			
DCCS	Telecare	May-13	Amber	0	1	The outstanding recommendation relates to the signing of a contract between the City and Wealden and Eastbourne (Wellbeing) for the provision of the 24hour call alarm response service. A signed copy of the contract has been received from the third party 19/11/13 but was not dated; this is being pursued.		1			1		1			
Community and Children's Services	Purchase of Equipment for Clients	Jun-13	Amber	0	1	The outstanding recommendation relates to agreement of the arrangements for future equipment service delivery. The City is entering into a call-off contract with the provider of a framework for the Community Equipment Service procured by the London Borough of Redbridge. A revised implementation timescale of mid December has been agreed for implementation of the contract, allowing for approval of the indemnity within the Access Agreement to be sought from the Chamberlain.		1			1		1			
Corporate Wide	Contract tendering and due diligence	Jun-13	Green	0	1	The outstanding amber recommendation relates to missing information that tenders may be rejected if their references are unsatisfactory. The creation of a single corporate pre-qualification questionnaire for the City has taken longer than anticipated since the audit recommendation was made. This is due to need to harmonise disparate documentation across the City following the launch of CLPS in April 2013. At present a number of departmental specific PQQ templates used for conducting tenders for works contracts over £400,000 and Supplies and Services contracts over the EU limits namely £174,000. The new corporate PQQ is to replace the departmental PQQ's is being finalised and will be ready for use in January 2014. However, in the interim period the City's Sourcing Support team undertake a check of all tenders being issued by Pro Contract to ensure that the recommended statement regarding reference checks is included, which mitigates the risk in the interim period		1		1			1			
Barbican Centre	ICT strategy, security and operations	Jul-13	Green	0	2	Two amber priority recommendation related to extending the Disaster Recovery (DR) plan to address major disaster scenarios and conduct recovery tests have been delayed whilst an additional firewall is installed at the DR site to improve security. This is reliant on BT installing a fibre connection which has been delayed. A revised timetable has been agreed for these recommendations to be fully implemented by the end of February 2014.		2		2			2			

Audit Actions Status - based on Management reports - as at 22/11/13		Open Red & Amber		Open Red & Amber Actions			Revised target date compared to original date (for live reds / ambers)				Planned Implementation date		
Total		0	8	0	7	1	3	1	2	2	6	0	1

Internal Audit Recommendations Follow-up Report – Appendix 3

Internal Audit Follow-up Process

As part of the section's standard operating procedures, all main audit reviews are subject to a formal audit follow-up exercise to evaluate the progress of management in the implementation of recommendations between six to twelve months after the main audit. These reviews will look to verify the evidence of action taken and may involve some transaction testing where compliance issues were a concern in the original audit review. Where it was considered that recommendations were not implemented at time of first audit follow-up, a further follow audit will be scheduled depending on the residual risk posed by uncompleted actions. The outcomes from these formal follow-up reviews are set out in **Appendix 1**.

In addition to this formal audit follow-up process, internal audit obtains status updates from recommendation owners on a quarterly basis for any open red or amber priority recommendations. The outcome from these status checks are reported in **Appendix 2**.

Audit recommendations are prioritised and categorised as follows.

Category	Definition	Target Timescale for taking action
Red - priority	A serious issue for the attention of senior management and reporting to the appropriate Committee Chairman. Action should be initiated immediately to manage risk to an acceptable level.	1 month or more urgently as appropriate
Amber - priority	A key issue where management action is required to manage exposure to significant risks, action should be initiated quickly to mitigate the risk.	Less than 3 months
Green - priority	An issue where action is desirable and should help to strengthen the overall control environment and mitigate risk.	Less than 6 months

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Committee: Audit and Risk Management	Date: 11 December 2013
Subject: Terms of Reference of the Audit and Risk Management Committee	Public
Report of: Town Clerk	For Decision

Summary

As part of the post-implementation review of the changes made to the governance arrangements in 2011, it was agreed that all committees should review their terms of reference annually. This will enable any proposed changes to be considered in time for the reappointment of committees by the Court of Common Council.

The Terms of Reference of the Audit and Risk Management Committee are attached for your consideration.

It is suggested that Members consider amending 4 (b) to state '*Head of Internal Audit*' instead of '*Chief Internal Auditor*'

Recommendation:

1. That, subject to any comments and the amendment to 4 (b), as suggested above, the Terms of Reference of the Audit and Risk Management Committee be approved for submission to the Court of the Common Council.
2. Any further changes required in the lead up to the appointment of committees be delegated to the Town Clerk in consultation with the Chairman and Deputy Chairman

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GIFFORD, Mayor

RESOLVED: That the Court of Common Council holden in the Guildhall of the City of London on Thursday 25th April 2013, doth hereby appoint the following Committee until the first meeting of the Court in April, 2014.

AUDIT & RISK MANAGEMENT COMMITTEE

1. **Constitution**

A Non-Ward Committee consisting of,

- nine Members elected by the Court of Common Council* at least one of whom shall have fewer than five years' service on the Court at the time of their appointment
- three external representatives (ie. non-Members of the Court of Common Council with no voting rights)
- the Chairman and Deputy Chairman of the Finance Committee (ex-officio with no voting rights)
- a representative of the Policy & Resources Committee (ex-officio with no voting rights)

*The Chairmen of the Policy and Resources, Finance and Investment Committees are not eligible for election to this Committee and the Deputy Chairman of the Audit & Risk Management Committee for the time being may not be a Chairman of another Committee.

2. **Quorum**

The quorum consists of five Members ie. at least three Members elected by the Court of Common Council and at least one external representative.

3. **Membership 2013/14**

- 3 (3) The Revd. Dr. Martin Dudley, *for three years*
- 3 (3) Ian David Luder, B.Sc.(Econ.), Alderman, *for three years*
- 3 (3) Robin Anthony Eve, O.B.E., Deputy
- 3 (3) Jeremy Paul Mayhew, M.A., M.B.A.
- 3 (3) Simon Walsh, M.A., Alderman
- 3 (2) Nigel Kenneth Challis
- 3 (2) Oliver Arthur Wynlayne Lodge, T.D, B.Sc.
- 3 (1) Nicholas John Anstee, Alderman
- 3 (1) Jeremy Lewis Simons M.Sc.

together with the Members referred to in paragraph 1.

4. **Terms of Reference**

Audit

- (a) To consider and approve the annual internal and external audit plans.
- (b) To commission and to receive reports from the Chief Internal Auditor on the extent that the City of London Corporation can rely on its system of internal control and to provide reasonable assurance that the City of London Corporation's objectives will be achieved efficiently.
- (c) To meet with the external auditors prior to the presentation of the Accounts to the Court, consider the audited annual accounts of the City Fund and the various non-local authority funds, to receive and consider the formal reports, letters and recommendations of the City of London Corporation's external auditors and to make recommendations relating to the approval of the accounts (to the Finance Committee).
- (d) To meet with the external auditors of the City Fund and the various non-local authority funds at least once in each calendar year prior to the presentation of the Accounts to the Court.
- (e) To report back as necessary to the Court of Common Council.
- (f) To appoint an Independent Audit Panel to make recommendations on the appointment of external auditors to the Court of Common Council.

Risk Management

- (a) To monitor and oversee the City of London Corporation's risk management strategy, anti-fraud and anti-corruption arrangements; and to be satisfied that the authority's assurance framework properly reflect the risk environment.
- (b) To consider all audit or external inspection reports relating to any department at the City of London Corporation and seek assurance that action has been taken where necessary.
- (c) To receive an annual report from the Chamberlain reviewing the effectiveness of the City of London's risk management strategy.
- (d) To consider and report back to the Court on any risks related to all governance issues.

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Audit and Risk Management Work Programme 2013/14

(Please note - additions since last meeting in italic)

Date	Items
28 January 2014	<ul style="list-style-type: none"> • Risk Management Update • Strategic Risk Review - SR4 Planning Policy (<i>brought forward from March 2014</i>) • Strategic Risk Review – SR5 Flooding in the City (<i>brought forward from March 2014</i>) • Committee Effectiveness Review – annual update • Internal Audit Customer Satisfaction Review – update on actions list
4 March	<ul style="list-style-type: none"> • 2014/15 Internal audit plan • Internal Audit Progress Report • Internal Audit recommendations follow-up report • Investigation Update report • Strategic Risk Review – <i>New: Safeguarding (if approved in Jan as Strategic Risk)</i> • <i>Strategic Risk Review - Old SR11 expanded to generic Ponds and Dams Risk (moved back from Jan 2014, as would only have been 6 months since previous report and Committee requested 9 monthly updates)</i> • Annual Governance Statement - methodology
13 May	<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 – <i>Old SR16 expanded to broader Information Management risk (was just Data Protection) – as per Zurich recommendation</i> • <i>Strategic Risk - tbc</i> • 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

22 July	<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
9 September	<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
4 November	<ul style="list-style-type: none"> • Internal Audit Planning for 2014/15 • 2 Strategic Risk Reviews – tbc
8 December	<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 • 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

Agenda Item 14

Committee: Audit and Risk Management	Date: 11 December 2013
Subject: Decisions taken under Delegated Authority or Urgency	Public
Report of: Town Clerk	For Information
<u>Summary</u>	
<p>This report advises Members of action taken by the Town Clerk since the last meeting of the Committee, in consultation with the Chairman and Deputy Chairman, in accordance with Standing Order Nos. 41(a) and 41(b).</p>	
<p>Recommendation To note the action taken since the last meeting of the Committee.</p>	

City's Cash Financial Statements 2012/13 – Recommendation for approval from the Audit and Risk Management Committee to the Finance Committee

Background

At its meeting on 15 October 2013, the Audit and Risk Management Committee considered a report of the Chamberlain, which set out the draft City's Cash Financial Statements for the year ended 31 March 2013. Members noted that they had been prepared, for the first time, on the basis of United Kingdom Generally Accepted Accounting Practice (UKGAAP). Therefore, the format and content varied significantly from the previous method of preparation, namely a modified version of the Charities Statement of Recommended Practice. The Auditors, Deloitte, were in attendance and confirmed that their review was nearing completion and anticipated being able to issue an unqualified opinion on a true and fair set of accounts.

Action taken

The Committee resolved that authority be delegated to the Town Clerk, in consultation with the Chairman and Deputy Chairman of the Audit and Risk Management Committee, to approve the final audited version of the City's Cash Financial Statements for 2012/13 and recommend them to the Finance Committee. The delegated authority was signed on 7 November 2013 and the Finance Committee approved the accounts on 19 November 2013. The accounts will be presented to the Court of Common Council on 5 December 2013.

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Agenda Item 18

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Agenda Item 19

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Agenda Item 22

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