

Report – Audit and Risk Management Committee

Annual Report

To be presented on Thursday, 5th December 2019

*To the Right Honourable The Lord Mayor, Aldermen and Commons
of the City of London in Common Council assembled.*

SUMMARY

The Audit and Risk Management Committee presents to the Court of Common Council the 2018/19 Annual Report of the Audit and Risk Management Committee, reporting on activity up to 31 July 2019. Providing this report to the Court of Common Council on an annual basis is in line with Chartered Institute of Public Finance & Accounting (CIPFA) guidance on best practice for audit committees in order to effectively support the organisation; for the Court to understand the work of the Committee; and, for the Court to hold the Committee to account.

RECOMMENDATIONS

Members of the Court are asked to note the report.

MAIN REPORT

Introduction

1. The Audit and Risk Management Committee (the Committee) has a wide-ranging brief that underpins the City of London Corporation's governance processes by providing independent challenge and assurance of the adequacy of risk management, internal control (including audit and anti-fraud) and the financial reporting frameworks. It also deals with a limited number of matters not reserved to the Court of Common Council or delegated to another Committee and related to a non-executive function. The Committee was formed as a Grand Committee in 2011, replacing the former Audit Sub-Committee (Finance).
2. Since the Audit and Risk Management Committee was established in 2011, it has served to scrutinise the risk management process at the City Corporation and enhance the maturity of risk management organisation wide. It has contributed to increasing the engagement with risk management, both on the part of Officers within the various departments, and elected Members through a process of "deep dive" review of significant risks. This process has resulted in re-evaluation of risks to ensure that mitigating actions are given the appropriate priority. The Committee has also served to improve engagement with the work of Internal Audit through regular monitoring of departmental implementation of Internal Audit recommendations and holding Chief Officers to account at Informal Risk Challenge Sessions alongside the formal Committee meetings.

3. This report details the work of the Committee for the period of just over a year to 31 July 2019, outlining the progress in relation to the key remit areas of:
 - Annual Governance Framework
 - Internal Audit
 - Risk Management;
 - Anti-Fraud;
 - External Audit;
 - Financial Reporting
4. Members of the Committee have a wide range of skills in many technical and professional areas, bringing significant experience and expertise to the Committee. All the Members have some experience in relation to the governance processes they challenge; however, during 2018/19, the Nominations Committee undertook a gap analysis assessment of the skills of the Members of the Committee to determine future recruitment requirements to the Committee. The Committee is comprised of 13 Members, together with three external members who provide additional knowledge and skills to support the function. Table 1 details the Committee Members during 2018/19.

Table 1: Members of the Audit & Risk Management Committee 2018/19

Alderman Ian Luder (Chairman)
Alexander Barr (Deputy Chairman)
Hilary Daniels (Deputy Chairman – External Member)*
Randall Anderson
Alderman Nick Anstee
Chris Boden
Deputy Jamie Ingham Clark (Ex-Officio Member, Finance Committee, Deputy Chairman)
Anne Fairweather
Marianne Fredericks (Ex-Officio Member, Policy and Resources Committee Representative)
Alderman John Garbutt
Kenneth Ludlam (External Member)
Paul Martinelli
Caroline Mawhood (External Member)
Jeremy Mayhew (Ex-Officio Member, Finance Committee, Chairman)
Andrien Meyers
John Petrie

** The Nominations Committee recommended the reappointment of Hilary Daniels for a final three-year term from 1 April 2019. This was subsequently approved by the Committee and the Court of Common Council.*

Annual Governance Framework

5. On 7 May 2019, the Committee received a report on the annual update of the City Corporation's governance and internal control framework. The Accounts and Audit (England) Regulations 2015, which apply to the City of London's City Fund activities, require an audited body to conduct a review, each financial year, of the effectiveness of its system of internal control and publish an Annual Governance Statement (AGS) each year, alongside the authority's Statement of Accounts.
6. The Committee approved the Annual Governance Statement 2018/9 for signing by the Chairman of the Policy and Resources Committee and the Town Clerk and Chief Executive.

Internal Audit

7. Throughout the year, the Committee has received update reports from the Head of Audit and Risk Management on the outcome of the work of Internal Audit, receiving an Annual Audit Opinion in May 2019 which gave the following opinion for the 12 months ended 31 March 2019:

"I am satisfied that sufficient quantity and coverage of internal audit work has been undertaken to allow me to draw a reasonable conclusion as to the adequacy and effectiveness of the City's risk management, control and governance processes."

8. The Audit Plan is aligned to the City's corporate and departmental objectives and key risks so that assurance can be obtained on these areas; the Head of Audit & Risk Management has also noted to the Committee that there has been greater engagement by Departmental Directors during 2018/19, with a number of audits being requested in areas of concern to provide them with assurance and advice on how to improve the control environment.
9. Internal Audit's work identified a number of opportunities for improving controls and procedures, with ten "Limited (Red) Assurance" reviews having been produced which have been accepted by management who have advised that control improvements are being implemented.
10. The Internal Audit team have continued to provide assurance to the organisations within the City with an increasing focus on corporate audits such as IR35 (off-payroll working rules), GDPR Readiness and Compliance, Cybersecurity, and Fraud Risk Awareness, to assess the effectiveness of systems which cut across all of the City's organisations. Within the City's Departments, the Head of Audit & Risk Management noted particular control issues in respect of the City of London Police, with four audits having been assessed as Limited assurance reports, including Key Financial Controls.
11. With the support of the Audit and Risk Management Committee, Internal Audit have also improved engagement in relation to the implementation of recommendations by the City's organisations with the rollout of web access to the Audit Management System across all departments to ensure that progress on implementation is reported on a timelier basis. This has been a key focus for the Committee following concerns that Management were not fully engaged with

the process; the Committee therefore escalated the matter to the Chairmen of the City's Committees to challenge their Departmental Directors on progress.

12. In December 2018, the City hosted a meeting of the Chairs of the London Boroughs Audit Committees, seeking to share knowledge, experiences and best practice and to explore the development of joint initiatives such as member training and performance benchmarking. A further meeting will be held in October 2019.

Risk Management

13. The Committee is responsible for monitoring and overseeing the City of London Corporation's risk management strategy and to be satisfied that the authority's assurance framework properly reflects the risk environment.
14. The City Corporation's Risk Management strategy includes a Policy Statement and a framework, which aligns with the key principles of ISO 31000: Risk Management Principles and Guidelines, and BS 31100: Risk Management Code of Practice, and defines clearly the roles and responsibilities of officers, senior management and Members.
15. The Strategy emphasises risk management as a key element within the City's systems of corporate governance and establishes a clear system for the evaluation of risk and escalation of emerging issues to the appropriate scrutiny level. The Strategy assists in ensuring that risk management continues to be integrated by Chief Officers within their business and service planning and aligned to departmental objectives. A review of the strategy will be undertaken in 2019/20.
16. During 2018/9, the Committee has exercised their oversight role in a number of ways. In addition to receiving quarterly risk update reports which contain information about the corporate and top red departmental level risks as well as endorsing new corporate risks, the Committee has adopted a cycle of regular departmental risk challenge sessions, with Chief Officers and their respective Committee Chairmen, which take place prior to their meetings. The Committee has received 11 deep-dive reports, including the General Data Protection Regulation, police funding, road safety and Brexit. There have also been six informal risk challenges, where the Committee discusses with respective Chief Officers a department's risk management arrangements, current and future risks.

Anti-Fraud

17. During the year, the Committee reviewed a paper relating to the London Counter Fraud Hub, a sophisticated pan-London data hub designed to detect and prevent fraud in high risk areas, including Council tax, social housing and business rates. The Committee agreed to support the City's onboarding to the London Counter Fraud Hub and the Anti-Fraud team have been working hard to ensure that the City is prepared and ready to benefit from its membership of the hub from launch day.
18. The Anti-Fraud team were one of only ten local authorities in the Country to participate in a National Fraud Initiative (NFI) pilot exercise, whereby the City's

NFI data was matched against HMRC data to identify Council tax reduction scheme fraud, housing tenancy fraud and direct payment fraud, resulting in an additional 14 live investigations.

19. During 2018/19, the Anti-Fraud team completed 43 investigations across all fraud disciplines, with an associated value of £602,108.
20. Social housing tenancy fraud is a key fraud risk area for the Anti-Fraud team and a concern for the Committee, with 20 illegally occupied properties recovered during 2018/19.
21. The City successfully utilised the Proceeds of Crime Act in two of its social housing tenancy fraud prosecution cases, recovering an additional £36,268 in criminal benefit.

Financial Reporting

22. The Audit and Risk Management Committee has scrutinised the City Corporation's various 2017/18 financial statements, seeking assurances on significant financial reporting issues, estimates and judgements. Reports have been received from both the External Auditors and the Audit Panel.
23. Having completed its review, the Audit and Risk Management Committee recommended approval of the 2017/18 statements to the Finance Committee. The financial statements for City Fund and Pension Fund were approved at the July 2018 Committee meeting. The financial statements for City's Cash, the City's Cash Charities (seven Open Spaces and Sir Thomas Gresham Trust) together with the other sundry Trusts were all approved at the November 2018 Committee meeting and were published with unqualified audit opinions. The financial statements for Bridge House Estates were approved at the January 2019 Committee meeting, behind the planned schedule, due to the requirement to reconstitute the endowment fund within these accounts.
24. The 2018/19 City Fund and Pension Fund financial statements were signed off by the Committee in July 2019.

External Audit

25. The 2018-19 financial statements will all be audited by BDO, with the City's Cash audit completing after preparation of this report. This is the first year of the contract where BDO will audit all City Corporation entities, having previously been the work of two audit firms. Work is progressing to agree where efficiencies in the external audit process can be realised as a result of a more joined up approach facilitated by having a single audit firm. This will continue to develop as we work with BDO towards our ultimate aim to sign off all our main financial statements in tandem rather than consecutively, as is the case at present.

Conclusion

26. The Committee requests that Members of the Court of Common Council note work of the Audit and Risk Management Committee as detailed above. The following Annual Report of the Audit and Risk Management Committee will cover the period from 1 August 2019 to 31 March 2020, with subsequent reports coinciding with the full financial year.

All of which we submit to the judgement of this Honourable Court.

DATED this 19th day of November 2019.

SIGNED on behalf of the Committee.

Alderman Ian Luder
Chairman, Audit and Risk Management Committee