

Report – Audit and Risk Management Committee

Annual Report

To be presented on Thursday, 18th June 2020

*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 from 1 April 2019 to 31 March 2020. 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 oversight of the adequacy of risk management, the internal control and 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. The Audit and Risk Management Committee was established in 2011, and 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. The Committee

oversees the planning and delivery of the External Audit review of the Annual Accounts produced by the City of London Corporation across all operations.

3. This report details the work of the Committee for the period from 1 April 2019 to 31 March 2020 (this includes an overlap of 4 months with the first such report of the Committee, made in September 2019 which covered the period 1 April 2018 – 31 July 2019, thus bringing this report in line with the financial reporting year) and outlines work in relation to the key remit areas of:
 - Annual Governance Framework
 - Internal Audit
 - Risk Management
 - Counter-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; supported by a periodic skills gap analysis undertaken by the Nominations 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 2019/20.

Table 1: Members of the Audit & Risk Management Committee 2019/20

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

5. The three external members are each appointed for a three-year term, which can be renewed twice, Kenneth Ludlam's final term ended on 31 March 2020. A nominations sub-committee, cognisant of the skills audit undertaken by members of the Committee, was appointed to oversee the appointment of a replacement external member, and Dan Worsley was recommended for appointment. His

appointment was ratified by the Court of Common Council on 5 December 2019 and he took up his role on 1 April 2020.

Changes Within the Year

6. There were two events during the year which should be noted for context:
 - Following the retirement of the incumbent Head of Audit and Risk Management, a new postholder was appointed with effect from 1 July 2019.
 - As a result of the lockdown in response to the COVID-19 outbreak, the final Committee meeting of the year, scheduled for 31 March 2020, was cancelled, an informal meeting was convened with urgent decisions taken under urgency procedures.

Annual Governance Framework (as incorporated within the 2018/19 report)

7. 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.
8. 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

9. The Committee received the Head of Audit & Risk Management's Annual Audit Opinion for the year ended 31 March 2019 in May 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." (as incorporated within the 2018/19 report)

10. 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. Internal Audit's work identified a number of opportunities for improving controls and procedures, with a "Limited (Red) Assurance" opinion having been provided in six cases. Those recommendations raised have been accepted by management.
11. The Audit & Risk Management Committee has continued to support and drive departmental engagement in relation to the follow-up work of Internal Audit to assess the implementation of recommendations. The Committee has escalated the matter of tardy implementation and poor departmental compliance with the follow-up process to relevant Chief Officers and the Chairmen of the respective Committees which has resulted in swift action to rectify issues raised. The Committee signed off in January 2020 a more efficient process for capturing and reporting follow-up activity, the effectiveness of this process will be monitored over the coming year.

12. In October 2019, the City hosted the second meeting of the Chairs of the London Borough 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. The meeting was well received by the Chairs and there was widespread demand for this network to meet more frequently; a further meeting was arranged, although subsequently cancelled as a result of the COVID-19 outbreak.

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. The strategy was reviewed and updated during 2019/20.
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 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.
16. During 2019/20, the Committee has exercised its oversight role in a number of ways:
 - Receiving quarterly risk update reports in relation to the corporate and red departmental level risks
 - Endorsing new corporate risks flagged by management
 - Deep-dive review of individual risks
 - Operating a cycle of regular departmental risk challenge sessions with Chief Officers and their respective Committee Chairmen, of which, five were held in 2019/20

Chief Officers have commented that risk challenge sessions have been helpful to them in raising the profile of issues that are of most concern to them and resulted in a revised course of action for example, the raising of a new corporate risk in relation Open Spaces and Wanstead Park reservoirs project. The Committee has received nine deep-dive reports, including the safeguarding, resilience, information security and Police funding.

17. The last Committee meeting of this Municipal year (31 March 2020) was disrupted by the COVID 19 emergency. As a result, the two corporate risk deep dive reports and the Chief Officer risk challenge sessions have been rescheduled for 2020/21.

Counter-Fraud

18. During 2018/19, the Anti-Fraud team completed 45 investigations across all fraud disciplines, with an associated value of just over £600k.
19. Social housing tenancy fraud is a key fraud risk area for the Anti-Fraud team and a concern for the Committee, with 16 successful outcomes secured, composing of the recovery of nine illegally occupied properties, two right to buy frauds and three fraudulent housing applications during 2019/20.
20. The Counter-Fraud Team successfully investigated two mandate frauds during the 2019/20 reporting year with a value of £116k, resulting in a direct saving to The City Corporation.

Financial Reporting

21. The Audit and Risk Management Committee has scrutinised the City Corporation's various 2018/19 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. The Committee has held the External Auditors to account to drive effective delivery of the audit and continues to support realisation of the ambition to achieve improved efficiency through greater consistency and a more joined up approach across all funds. In particular, the Committee challenged the External Auditor in relation to delays in the delivery of the City's Cash Audit which led to a delay in the approval of the accounts of some two months.
22. Having completed its review, the Audit and Risk Management Committee recommended approval of the 2018/19 statements to the Finance Committee as follows:
 - City Fund and Pension Fund statements were approved at the July 2019 Committee meeting
 - Bridge House Estates statements were approved at the September 2019 Committee meeting
 - Statements for City's Cash, the City's Cash Charities (seven Open Spaces charities and Sir Thomas Gresham Trust) and the other Sundry Trusts were expected at the September 2019 meeting but not received until the November 2019 meeting

Following a potential material issue raised by the External Auditor at the November Committee meeting, Members agreed that the Committee would not recommend the City's Cash accounts to the Finance Committee. The accounts were subsequently approved under delegated authority, the outstanding query having been resolved. The City's Cash Charities and Sundry trust statements were approved at the November 2019 Finance Committee meeting.

23. The External Auditors, BDO, had been appointed for a three-year term, ending with the 2020-21 accounts, with the possibility of extension at the option of the Corporation. The Committee decided against an extension and the process of retendering the role has now been put in place. In accordance with the statutory regulations, the Independent Audit Appointment Panel is being chaired by Hilary

Daniels, one of the external members of the Audit and Risk Management Committee.

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

DATED this 4th day of June 2020.

SIGNED on behalf of the Committee.

Alderman Ian Luder
Chairman, Audit and Risk Management Committee