

Report – Audit and Risk Management Committee

Annual Report

To be presented on Thursday, 17th June 2021

*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 2020/21 Annual Report of the Audit and Risk Management Committee, reporting on activity from 1 April 2020 to 31 March 2021. 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

1. This report summarises the work of the Audit and Risk Management Committee and outcomes achieved during 2020/21 in relation to its key areas of remit, including the Annual Governance Framework, Internal Audit, Risk Management, Anti-Fraud, External Audit and Financial Reporting. Headline outcomes include:
 - Adding greater depth to the oversight and scrutiny of effective risk management through the Informal Risk Challenge Process
 - Challenging and supporting the organisation in its response to the COVID-19 pandemic
 - Supporting the process to ensure that Internal Audit activity is focussed towards areas of most significant risk
2. The Audit & Risk Management Committee (the Committee) has a wide-ranging but focused brief that underpins the City of London Corporation's governance processes. It does this via structured independent challenge and oversight of the adequacy of enterprise and departmental risk management, in addition to the internal controls 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).

3. The Audit and Risk Management Committee scrutinises the risk management process of the City Corporation and has been responsible for the evolution of risk management organisation wide. It has increased the engagement with 'risk management' as a subject matter, both on the part of Officers within departments, and also elected Members through a process of "deep dive" reviews of significant risks (in public session) and Informal Risk Challenge Sessions (IRC) (in non-public session).
 - The deep dive reviews have resulted in the re-evaluation of risks to ensure that mitigating actions are given the appropriate priority. A dynamic and adaptable approach is used to identify which departments should be subject to the deep dive process
 - The IRC process has been fully revamped, with new strategic focus on departments' end to end risk processes (identification, management, ownership, mitigation) and risk culture. The committee leadership, together with the Head of Audit & Risk Management have built a new reporting format which now provides hitherto unavailable information to Committee members and supports clear understand of departmental challenges and clearly identifies where risks need to be developed and / or adopted. With a number of Chief Officers now having undergone this process, initial feedback supports that this a highly collaborative, helpful and welcomed process. The IRC process will continue in virtual format post-easing of national lockdown restrictions, the format being found to be particularly helpful
4. The Committee has also improved engagement with the work of Internal Audit through regular monitoring of the implementation of Internal Audit recommendations. 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.
5. This report details the work of the Committee for the period from 1 April 2020 to 31 March 2021 and outlines work in relation to the key remit areas of:
 - Annual Governance Framework
 - Internal Audit
 - Risk Management
 - Counter-Fraud
 - External Audit
 - Financial Reporting
6. 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. This is supported by a regular skills gap analysis undertaken by the Nominations Sub-Committee. The Committee is comprised of 13 Members, plus three external members who provide additional knowledge and skills to support the function. Table 1 sets out the Committee Members during 2020/21.

Table 1: Members of the Audit & Risk Management Committee 2020/21

Alexander Barr (Chairman)
Hilary Daniels (Deputy Chairman – External Member)
Alderman Ian Luder (Deputy Chairman - Member)
Randall Anderson
Chris Boden
Anne Fairweather
Marianne Fredericks (Ex-Officio Member, Policy and Resources Committee Representative)
Alderman Prem Goyal
Deputy Jamie Ingham Clark (Ex-Officio Member, Finance Committee, Deputy Chairman)
Paul Martinelli
Caroline Mawhood (External Member)
Jeremy Mayhew (Ex-Officio Member, Finance Committee, Chairman)
Andrien Meyers
John Petrie
Ruby Sayed
Dan Worsley (External Member)

7. The three external members are each appointed for a three-year term, which can be renewed twice. Caroline Mawhood's final term ended on 31 March 2021. 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 Gail Le Coz was recommended for appointment. Ms Le Coz' appointment was ratified by the Court of Common Council on 4 March 2021 and she took up her role on 1 April 2021.

Changes Within the Year

8. The COVID-19 pandemic continued to impact the operations of the City of London Corporation. The working practices of the Committee transitioned successfully to virtual/online operation without impacting adversely the work of the Committee. Assessments of the risks presented by the pandemic, directly and indirectly, enterprise wide, and at a departmental level formed a material part of the Committee's works during the year. The Committee held in June 2020 a deep dive review of the City's Corporate Risk in relation to COVID-19, examining the approach to managing the risk, the detail of the risk itself and the mitigation of this risk. In light of the dynamic and evolving nature of the risk, the Committee maintained this interest, picking up service level issues as part of the following cycle of IRC sessions. A further related deep dive took place in November 2020, examining the Corporate Health, Safety and Wellbeing risk, with a particular focus on the impact of COVID-19; the impact of remote working and those steps taken to manage the risk of transmission where a physical officer presence has been required throughout the pandemic.

Annual Governance Framework

9. On 2 June 2020, 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, risk management and governance and publish an Annual Governance Statement (AGS) each year, alongside the authority's Statement of Accounts.

10. The Committee approved the Annual Governance Statement 2019/20 for signing by the Chairman of the Policy and Resources Committee and the Town Clerk and Chief Executive.

Internal Audit

11. The Committee received the Head of Audit & Risk Management's Annual Audit Opinion for the year ended 31 March 2020 in June 2020:

"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."

12. 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.
13. The Internal Audit Plan for 2020/21 was subject to review throughout the year recognising the impact that the COVID-19 pandemic has had on frontline service delivery and also to reflect significant changes to the resourcing levels of the Internal Audit Team. The amendments to the Audit Plan were made having given due consideration to the system of prioritisation agreed by the Committee when approving the initial plan at the start of the year.
14. Following a series of related incidents arising from structure failure at the Smithfield market, the Committee leadership dynamically liaised with the Chairs of Policy and Resources and Markets, actively engaged with the City Surveyor and commissioned an Internal Audit review of Operational Property Management (across the City's operational property portfolio). The Committee was instrumental in building engagement for this assignment and support for the recommendations made. The Audit highlighted significant systemic risk in relation to the organisation's approach to maintaining its operational property assets, and a management action plan is in place to mitigate these risks.
15. 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. There have been no instances in 2020/21 where the Committee has needed to escalate the matter of weak implementation and/or poor departmental compliance with the follow-up process to relevant Chief Officers and the Chairmen of the respective Committees. This

is a key indicator of the effectiveness of the amended follow-up process approved previously by the Committee.

Risk Management

16. 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. (The strategy is due for review and endorsement at the May 2021 Committee meeting)
17. 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.
18. 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.
19. During 2020/21, 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 corporate risks of which ten were considered by the Committee in 2020/21
 - Operating a cycle of regular departmental risk challenge sessions with Chief Officers and their respective Committee Chairmen, of which, six were held in 2020/21
20. The Committee reviewed the informal risk challenge process in July 2020. This has resulted in a greater focus by the Committee on the department's risk processes and arrangements. Format changes were also initiated to allow more frequent sessions being held (usually monthly) and that they take place separately (and virtually) from being held on Committee meeting dates – the previous practice. The new arrangements became effective from September 2020 and the Committee have undertaken six informal risk challenge sessions since that time.
21. Chief Officers have commented that risk challenge sessions have been helpful in highlighting issues which are of concern to them. The Committee have also encouraged (or suggested) changes to existing risk processes within departments (for example in the City of London School and City Surveyor's

department), bringing these into closer alignment with the Corporate Risk Management framework.

22. The Committee has received ten deep-dive reports, including the COVID-19, Climate Action, Air Quality, Safeguarding and financial planning.

Counter-Fraud

23. During 2020/21, the Corporate Anti-Fraud team completed 26 investigations across all fraud disciplines, with an associated value of £158k.
24. Social housing tenancy fraud is a key fraud risk area for the Corporate Anti-Fraud team and a concern for the Committee, and whilst the COVID pandemic has impacted work in this area during 2020/21, seven successful outcomes were secured composing of; the recovery of two illegally occupied properties and, identification of five fraudulent housing applications preventing the allocation of fraudulent tenancies in all five cases.
25. The Corporate Anti-Fraud Team delivered a programme of pre- and post-payment assurance activity in respect of the COVID business support grants administered by the City Corporation during 2020/21, identifying three cases where grants were paid to ineligible businesses resulting in the recovery of £25,200. Enhanced vetting supported decisions not to award grants to six businesses deemed ineligible for COVID business support.

Financial Reporting

26. The Audit and Risk Management Committee has scrutinised the Corporation's various 2019/20 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 Audits, although noting the challenges presented by the COVID-19 pandemic.
27. Having completed its review, the Audit and Risk Management Committee recommended approval of the 2019/20 statements to the Finance Committee as follows:
 - Bridge House Estates statements were approved at the October 2020 Committee meeting
 - City Fund and Pension Fund statements were approved at the November 2020 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 approved at the November 2020 Committee meeting

Other Work of the Committee

28. In December 2020, the City hosted the third 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 again well received by the Chairs and there was widespread demand for this network to meet more frequently; a further meeting was arranged and held in April 2021.

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

DATED this 27th day of May 2021.

SIGNED on behalf of the Committee.

Alexander Barr
Chairman, Audit and Risk Management Committee