Audit Committee

15 July 2014: On rise of Leaders' Committee

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Location: Meeting Room 2 , London Councils, 59½ Southwark Street, London SE1 0AL

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* Declarations of Interests

If you are present at a meeting of London Councils' or any of its associated joint committees or their sub-committees and you have a disclosable pecuniary interest* relating to any business that is or will be considered at the meeting you must not:

- participate in any discussion of the business at the meeting, or if you become aware of your disclosable pecuniary interest during the meeting, participate further in any discussion of the business, or
- participate in any vote taken on the matter at the meeting.

These prohibitions apply to any form of participation, including speaking as a member of the public.

It is a matter for each member to decide whether they should leave the room while an item that they have an interest in is being discussed. In arriving at a decision as to whether to leave the room they may wish to have regard to their home authority's code of conduct and/or the Seven (Nolan) Principles of Public Life.

*as defined by the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012

If you have any queries regarding this agenda or are unable to attend this meeting, please contact:

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Minutes of the Meeting of the Audit Committee
20 March 2014

Cllr Ian Bond was in the Chair

Members Present:

Cllr Ian Bond (LB Redbridge)
Cllr Stephen Alambritis (LB Merton)
Mr Roger Chadwick (City of London)

In Attendance:

Myles Binney, Auditor, City of London
Nirupa Gardner, Auditor, City of London
Paul Nagle, Head of Audit & Risk Management, City of London
Ciaran McLaughlin, Auditor for London Councils, PricewaterhouseCoopers

London Councils' officers were in attendance.

1.   Declarations of Interest

There were no declarations of interest.

Introductions were made.

2.   Apologies for Absence

An apology for absence was received from Councillor Lib Peck (LB Lambeth)

3.   Minutes of the Audit Committee meeting held on 26 September 2013

The minutes of the Audit Committee meeting held on 26 September 2013 were agreed as being an accurate record.

4.   Internal Audit Plan 2014/15

The Audit Committee received a report that informed members of the draft internal audit plan for 2014/15, as proposed by the City of London's Internal Audit section under the terms of the service level agreement for financial and payroll services. The report also provided details on the delivery of the 2013/14 plan and the proposed rolling five-year programme covering the period up to 2018/19.

Davis Sanni said that the internal audit plan had been developed in liaison with the London Councils' Corporate Management Board (CMB) and also involved the review of London Councils' Risk Register and the planned work of PwC, the external auditors. Paul Nagle (Head of Audit and Risk Management, City of London) said that the plan was carried out on a cyclical 5-year basis and gave assurances on London Councils' control environment. He said the proposed number of hours allocated to audits in 2014/15 had been slightly reduced in comparison to previous years due to the extensive work carried out on ICT audits in the current financial year. A total of 38 days have been

allocated for audits in 2014/15 which include four days for follow-up reviews (eg for Grants & ICT). Councillor Alambritis said that he was very pleased with the internal audit plan for 2014/15.

The Audit Committee:

- Approved the internal audit programme for 2014/15, as proposed by the City of London and detailed in Appendix A of the report
- Noted the delivery of the 2013/14 internal audit plan, and
- Approved the 5-year internal audit pan for 2014/15 to 2018/19, as proposed by the City of London and detailed in Appendix B of the report.

5.   **External Audit Plan 2013/14**

The Audit Committee received a report on the scope of the external audit for London Councils, in respect of the 2013/14 financial accounts, as detailed in the draft external audit plan.

Ciaran McLaughlin (PricewaterhouseCoopers – PwC) went through the external audit plan with members. He made the following comments:
- Page 19 of the report outlined PwC's responsibilities
- Any significant or elevated risks were highlighted on pages 21 to 22 (the risks identified could be found on the right-hand side)
- The overall materiality is £1.364 million (2% of reported gross expenditure for 2012/13), with the de minimis reporting level being £68,000, both od which needed to be agreed by the Audit Committee (page 23)
- Pages 26 to 27 outlined the risks of fraud, with page 26 stating PwC's responsibility. The Audit Committee should let PwC know of any specific areas of fraud it was aware of
- The PwC audit team details could be found on page 28 (PwC had recently lost the Engagement Manager who has led the past two audits)
- The audit fees for London Councils were on page 29, along with the fee for the AR27 return
- The independent threats and safeguards could be found in Appendix A, page 31(PwC was found to be independent)
- The "Communications Plan" was on page 32, along with some recent PwC publications on page 33
- Appendix D (pages 34 to 35) outline the features of the quality of PwC's audit

Ciaran McLaughlin said the fee for London Councils' audit had reduced year-on-year in real terms and efficiencies continued to be looked at. PwC propose to use their "Client Connect" system which is an online portal for clients to upload required audit information. The portal is located in Germany. They also intend to use a service delivery centre, to document work, based in Poland. PwC, however, remain responsible for the whole of London Councils' audit and the security of the data. Ciaran McLaughlin confirmed that the Audit Commission was satisfied with the arrangements that had been put in place.

The Chair said that he welcomed the fact that the PwC audit fee had not increased. Roger Chadwick said that he hoped that the quality of the audit would not be compromised as a result of the unchanged audit fee. He also asked whether a "declarations of interest" system for senior officers is in place at London Councils to help prevent fraud. Paul Nagle confirmed that a declaration of interest procedure was in place at the City of London from Director level to key audit posts. He said that he was uncertain what systems London Councils had in place regarding this matter. Frank Smith confirmed that London Councils' Directors had to declare their interests as related party transactions on an annual basis, although this did not go as far as the City of London's current procedures. He said that London Councils also had a separate "pecuniary" and "non-pecuniary" declaration of interest form, as part of London Councils Code of Conduct.

Christiane Jenkins said that all new London Councils staff had the Code of Conduct brought to their attention as part of a mandatory Corporate Induction Session and would complete the declaration of interest form, if appropriate. Staff would also complete one prior to joining an organisation, like a PCT, for example, as approval was necessary. These declarations are kept on an individual's personal file, There is also a "declarations" section on London Councils' recruitment forms.

The Audit Committee approved the draft audit plan for 2013/14, as detailed in Appendix A of the report.

6.   Internal Audit Reviews

The Audit Committee received a report that updated members on the internal audit reviews completed by the City of London's Internal Audit section, since the last meeting of the Audit Committee on 26 September 2013.

David Sanni informed members that there were three main internal audit reviews, namely, (i) the London Lorry Control Scheme (LLCS), (ii) an ICT review, and (iii) a review of the Grants programme. Six recommendations had been made for the LLCS, including revised controls and operational procedures (page 48). David Sanni said that an update and recommendation implementation schedule for the LLCS could be found on page 55 of the report.

The Chair said that the City of London's ICT review, including strategy, security and operational control, could be found on page 57 onwards. David Sanni said that a number of recommendations had been made and London Councils had taken steps to address these. The Chair asked why "a current ICT strategy does not exist", as stated in the "amber" priority on page 64 of the report. Frank Smith said that London Councils was a small organisation and nothing had changed with regards to ICT since the last strategy was drawn up in 2005. He said that a references to new and changing issues regarding IT would be made in the regular review of the risk registers. Frank Smith accepted that a review of the strategy was overdue and informed members that this would take place once the Office 365 upgrade had been completed, with the intention being that the revised strategy would be signed off by the summer.

Roger Chadwick asked if London Councils' officers had regular engagement with Agilysis, the City's IT contractor. Frank Smith said that Roy Stanley met with Agilysis once a week. He said that there were problems with the network before Christmas and London Councils was left without the network for between 2 and 3 days. These problems had all been rectified by Agilysis and the service was now working well. Frank Smith said that he was hopeful that London Councils would not need the same level of attention from Agilysis once the ICT was updated. Roger Chadwick said that Frank Smith could contact him if he needed any help with the contractors to ensure the service continued to run smoothly.

The Chair asked whether the policy issues around internet access to unsuitable sites and social media sites (page 72) had been dealt with. Roy Stanley confirmed that it had. The Chair also asked whether the CD drives and USB ports would be made secure by the summer. Frank Smith said that Agilysis was currently looking into this. John O'Brien said that there was some concern about the requirements of the Public Services Network and London Councils was looking into this. He said that the issues to be considered were not on the same scale as that of member boroughs.

The Chair asked whether there was adequate storage capacity for the email system (page 74). Frank Smith informed members that London Councils installed three terabytes 12 months ago, but this has almost been fully utilised. He said that this issue was being looked at with Agilysis, owing to the ever increasing amount of space required for uploading documentation relating to Freedom Pass, Taxicard and Lorry Control. The email storage problem would cease to exist once London Councils moved to the cloud service.

The Chair asked whether the single firewall issue had been resolved. Frank Smith said that a fully resilient internet fail-over connection would cost £10,000 to install, along with a yearly rental of £8,000. He said that storage costs, in general, could be spread over three years. Upgrading to twenty terabytes would cost approximately £30,000. Councillor Alambritis said that London Councils should spend what was required on this to safeguard the network.

David Sanni informed the Audit Committee that the recommendations of the 2012 grant investigation had been implemented. He said that the only recommendation was for the introduction of additional reference checks on organisations which had never been funded by London Councils or received annual funding in excess of £1 million. The Chair said that grants programme was operating in a much better way as a result of the recommendations from the 2012 investigation. Councillor Alambritis said that it was good that additional references were being asked for before giving grants of more than £1 million.

The Audit Committee:

- Considered and commented on the contents of the internal audit report attached at Appendix A, and
- Noted that, although there were no significant control weaknesses identified in the reviews, there were seven amber recommendations highlighted in the ICT review which London Councils' officers were already taking action to address.

7.   Risk Management – Policy & Public Affairs Directorate Risk Register

The Audit Committee received a report that presented the current Policy and Public Affairs (PAPA) Directorate Risk Register for consideration.

Christiane Jenkins informed members that this was part of a cycle of risk registers that were presented to the Audit Committee, and it was now the turn of PAPA. The Chair asked if there were any significant changes to the risk register. Hugh Grover (Director of Fair Funding, London Councils) said that the PAPA Risk Register was quite stable. He said that there were minor changes to the risk descriptions in PAPA 2, PAPA 9 and PAPA 10.

The Chair queried the risk presented by failing to lobby adequately in risk number PAPA 6. Hugh Grover said that he would discuss clarifying the description to this risk with the Dick Sorabji, the Corporate Director of PAPA. Councillor Alambritis said that he was very pleased with work undertaken in complying with equalities legislation (PAPA 5).

The Audit Committee noted the current Policy and Public affairs Directorate Risk Register, and agreed that Hugh Grover would discuss the wording in the description of PAPA risk number 5.

8.   Treasury Management Update

The Audit Committee received a report that provided members with an update on London Councils treasury management strategy. London Councils' cash balances are held by the City of London under the service level agreement for the provision of financial support services. The investment of London Councils' cash balances was covered by the City of London's treasury management strategy and they were aggregated with the City of London's funds for investment purposes.

David Sanni said that, following the Icelandic Bank crisis in 2009, it was agreed to present the Audit Committee with an annual report on the City of London's treasury management activities. He said that London Councils was confident that the treasury management function of the City was run in a prudent manner. Roger Chadwick said that the City of London remained "risk averse". He confirmed that the City had carried out an internal review into its investments and has decided to reduce some of its cash holdings in order invest in assets which attract higher returns. Roger

Chadwick said that apart from this the strategy had not changed and the City still complied with CIPFA requirements.

The Audit Committee noted and commented on the City of London's Treasury Management Strategy Statement and Annual Investment Strategy for 2014/15, as at Appendix A of the report.

9.   London Councils' Policy to Combat Fraud, Bribery & Corruption

The Audit Committee received a report that sought approval of an updated policy for London Councils to combat fraud, bribery and corruption. The policy had been updated in order to take into account the Bribery Act 2010 and to reflect current best practice.

Christiane Jenkins said that a version showing the amendments to the policy in track changes could be found on page 162 of the report. She said that London Councils had worked with Paul Nagle and the City's lawyers to assist with the content of the policy. Christiane Jenkins said that a member of London Councils' staff had actually used this policy. A note had also been produced for staff on whistleblowing. The Chair said that judging by the amount of track changes, the fraud policy had been extensively re-written.

The Audit Committee approved the London Councils' Policy to Combat Fraud, Bribery and Corruption, as detailed in Appendix One of the report.

10.   Dates of Audit Committee Meetings for 2014/15

The Audit Committee agreed the proposed Audit Committee meeting dates for 2014/15.

11.   Any Other Business

The Chair said that he had enjoyed the past two years of chairing the London Councils' Audit Committee. He said that the Audit Committee was supported by a good team of officers and that he had also enjoyed working with Roger Chadwick and Councillor Alambritis. Councillor Alambritis thanked Councillor Bond for his chairmanship of the Audit Committee, for which he was very grateful. He also thanked Councillor Bond on behalf of officers for making time to attend the Audit Committee pre-meetings, which had proved very beneficial in the smooth operation of the Committee over the past 18 months.

The meeting closed at 11:15am

Action Points

Item	Action	Progress
7. PAPA Risk Register	Hugh Grover to discuss the wording in the description for PAPA 5	Completed

Audit Committee

Risk Management – Services Directorate Risk Register

Item no: 04

Report by:	Nick Lester	**Job title:**	Corporate Director, Services

Date: 15 July 2014

Contact Officer: Nick Lester

Telephone: 020 7934 9905 **Email:** Nick.Lester@londoncouncils.gov.uk

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Summary: This report presents the current Services directorate risk register for consideration by the Audit Committee.

Recommendations: The Audit Committee is asked to:

- Note the current Services directorate risk register

Risk Management Framework and Registers

1. Background

1.1 London Councils Risk Management Strategy and Framework was agreed in March 2012. The approach is proportionate to the organisation and establishes the organisation's approach to risk management and a framework for identifying and monitoring risks.

1.2 The directorate and corporate risk registers are reviewed, at minimum, quarterly by the Corporate Governance Officer Group and half-yearly by London Councils' Corporate Management Board (CMB).

1.3 In September 2011 the Audit Committee requested that the directorate risk registers were presented to the committee in rotation, one at each meeting. This report presents the Services risk register to the Audit Committee.

2. Current position on Services directorate risk register

2.1 The Services risk register includes 52 risks across the following service areas:
- General (generic risks affecting all service areas)
- Transport & Mobility
- Parking & Traffic Appeals Service
- Grants
- Community Services
- Young People's Education & Skills
- Capital Ambition

2.2 London Councils Risk Management Strategy states that: 'In terms of Service provision, London Councils will look to mitigate the risk to the lowest possible level for both Service users and the stakeholders for whom we provides the service taking into account the financial and resource impact of our mitigating actions. At the same time, the organisation has a commitment to supporting London local government and to assist in identifying innovative solutions and new approaches to service delivery, which is likely to carry a level of risk.'

2.3 The types and definitions of risks used in London Councils risk assessments are attached at Appendix One.

2.4 The Services directorate risk register is considered monthly at the Services management team meeting, which comprises the following Officers:

- Nick Lester, Corporate Director, Services
- Spencer Palmer, Programme Director, Transport and Mobility
- Mary Vine-Morris, Senior Director, Young People's Education & Skills
- Stephen Boon, Chief Contracts Officer
- Simon Courage, Head of Community Services and Grants
- Richard Reeve, Tribunal Manager

It was last considered by this group on 13 June 2014.

2.5 The Services risk register is also considered quarterly at the Corporate Governance Officers Group, most recently on 17 April 2014 and every 6 months by the Corporate Management Board, most recently on 27 February 2014.

3. Implications

Equalities Implications for London Councils

There are no specific equalities implications arising from the recommendations, although when compiling the divisional, directorate and corporate risk registers, equalities issues may be identified and will be recorded, reported and managed as necessary.

Financial Implications for London Councils

There are no financial implications arising from this report.

Legal Implications for London Councils

There are no legal implications arising from this report.

5. Recommendations

The Audit Committee is asked to:

- Note the Services directorate risk register

Appendices;

Appendix 1 - Criteria for risks within London Councils

Appendix 2 - Services directorate risk register – last updated 13 June 2014

Appendix 1 – Criteria for risks within London Councils
(extract from London Councils Risk Management Strategy & Framework,
approved March 2012)

Types of risks
The main types of risk that London Councils is likely to encounter are:

Risk	Definition
Compliance	Risk of failing to comply with statutory requirements.
External	Risks from changing public or government attitudes.
Financial	Risks arising from insufficient funding, losing monetary resources, spending, fraud or impropriety, or incurring unacceptable liabilities
Operational	Risks associated with the delivery of services to the public and boroughs arising, for example, from recruitment difficulties, diversion of staff to other duties, or IT failures, loss or inaccuracy of data systems or reported information
Project	Risks of specific projects missing deadlines or failing to meet stakeholder expectations.
Reputation	Risks from damage to the organisation's credibility and reputation.
London	Risks to our stakeholders that need to be taken into account in our planning and service provision
Strategic	Risks arising from policy decisions or major decisions affecting organisational priorities; risks arising from senior-level decisions on priorities.
Contractual Risks	Risks related to the management of service contracts
Internal	Risks that relate to HR/People risks associated with employees, management and organisational development

Assessing and scoring risks
To assess risks adequately London Councils will identify the *consequences* of a risk
occurring and give each risk a score or *risk rating*.

A means of comparing risks is needed so that efforts can be concentrated on addressing
those that are most important. Each risk will be given a score, depending on its
likelihood and its impact, as shown below. A risk may meet some, or all, of a description
of likelihood or impact. These descriptions provide guidance rather than a prescriptive
formula for determining risk ratings. Scoring a risk is a judgement call based on
knowledge, understanding and informed guesswork.

Any risks which are both very likely to occur and will have a high impact are the ones
that demand immediate attention.

Risk assessment			
Rating	Likelihood	Impact	Rating
Very High 4	**70% chance of occurrence** Almost certain (the risk is likely to occur within 6 months or at a frequent intervals). The event is expected to occur as there is a history of regular occurrence.	Huge financial loss; key deadlines missed or priorities unmet; very serious legal concerns (e.g. high risk of successful legal challenge, with substantial implications for London Councils); major impact on Boroughs or Londoners; loss of stakeholder public confidence.	*Very High 4*
High 3	**40% - 70% chance of occurrence** Probable, the risk is likely to occur more than once in the next 12 months. A reasonable possibility the event will occur as there is a history of frequent occurrence.	Major financial loss; need to renegotiate business plan priorities; changes to some organisational practices due to legislative amendments; potentially serious legal implications (e.g. risk of successful legal challenge); significant impact on the Boroughs or Londoners; longer-term damage to reputation.	*High 3*
Medium 2	**20% - 39% chance of occurrence** Possible, the risk may occur in the next 18 months. Not expected but there's a possibility it may occur as there is a history of casual occurrence.	Medium financial losses; reprioritising of services required; minor legal concerns raised; minor impact on the Boroughs or Londoners; short-term reputation damage.	*Medium 2*
Low 1	**<20% chance of occurrence** Rare, the risk may occur in exceptional circumstances.	Minimal financial losses; service delivery unaffected; no legal implications; unlikely to affect the Boroughs or Londoners; unlikely to damage reputation.	*Low 1*

<u>Risk scores</u>

Risk Assessment

	Low (1)	Medium (2)	High (3)	Very High (4)
Very High (4)	4	8	12	16
High (3)	3	6	9	12
Medium (2)	2	4	6	8
Low (1)	1	2	3	4

Impact

It is recognised that the scores at different levels of the register (project/team, directorate/ divisional, corporate) will reflect the importance of the risk in the context of the level of the register. For example, an individual officer's project register may reflect a high impact score on the project if an element is delivered late, but this will not necessarily correspond to a high impact on the organisation as a whole. This incremental approach to impact allows risks to be appropriately scored at each level to enable effective prioritisation of management and mitigation actions.

Mitigating risks
In addressing risks, a proportionate response will be adopted – reducing risks to 'As Low a Level as is Reasonably Practicable' in the particular circumstances
(known as the ALARP approach).

In identifying actions to address a risk, at least one of the 4 T's; treat, transfer, tolerate or terminate should apply.

Treat – treating the risk is the most common response, taking action to lessen the likelihood of the risk occurring. Treatment can also mean planning what you will do if the risk occurs, therefore minimising the impact. The purpose of 'treatment' is not necessarily to terminate the risk but, more likely, to establish a planned series of mitigating actions to contain the risk to an acceptable level.

Transfer – transferring the risk might include paying a third party to take it on or having an insurance policy in place. Contracting out a service might mitigate the risk but create new risks to be managed.

Tolerate – the ability to take effective action against some risks may be limited, or the cost of taking action may be disproportionate to the potential benefit gained. In this instance, the only management action required is to 'watch' the risk to ensure that its likelihood or impact does not change. This is an acceptable response as long as the risk has been properly identified and toleration is agreed to be the best option. If new management options arise, it may become appropriate to treat this risk in the future. London Councils may choose to tolerate a high residual risk if the activity involves presents a significant, yet risky, opportunity for the organisation. This should be explained in the description of the countermeasures.

Terminate – by doing things differently, you remove the risk.

Services Risk Register - 2014/15

Division	Services		Date Last Reviewed	13 June 2014	
Director	Nick Lester		Reviewed By	NL / SP / MVM / RR / SB / SC	

Risk Management

Risk No.	Risk	Type of Risk	Risk Description (including Implications)	Risk Rating (without controls)			Controls in Place	Risk Owner (Name & Position)	Risk Rating (with controls)		
				Likelihood (1- 4)	Impact (1 - 4)	Overall			Likelihood (1- 4)	Impact (1 - 4)	Overall

GENERAL

Risk No.	Risk	Type of Risk	Risk Description (including Implications)	Likelihood (1- 4)	Impact (1 - 4)	Overall	Controls in Place	Risk Owner (Name & Position)	Likelihood (1- 4)	Impact (1 - 4)	Overall
A1	Staff management	Compliance, Financial, Operational, Project	Loss of key staff would reduce capacity to undertake work plan; Services would cease or reduce, good will of contractors and customers lost; Sickness, transport chaos. Low morale in times of difficulties.	4	3	12	Maintain good staff relations and communication. To review business processes to improve efficiencies and reliability and to enhance the disaster recovery plan.	Nick Lester, Corporate Director of Services	3	2	6
A2	Poor quality work in representing boroughs	Reputation and Financial	Inappropriate or inaccurate work by officers in representing borough interests. Lobbying ineffective. Lack of invitations to attend events and meetings	2	3	6	Recruitment of appropriate staff and effective staff management	Nick Lester, Corporate Director of Services	1	3	3
A3	Achievability and impact of targets on service delivery	Financial	Failure to achieve targets being set and/or affects delivery of services that we are responsible for delivering.	3	4	12	To look at savings and to monitor the process	Nick Lester, Corporate Director of Services	2	3	6
A4	Failing to provide input into key policy areas affecting London Councils members/ ineffective lobbying	External Project Reputation London	May result in key decision makers not understanding or taking account of the role and needs of boroughs and their residents. Would lose confidence of boroughs in London Councils ability to represent their interests.	2	3	6	Key GLA and govt. policy and legislative developments potentially affecting boroughs, Londoners and London's VCS regularly monitored. Formal London Councils responses developed for key London issues. Developing alliances with partners, including VCS in London to enhance lobbying. Relationships developed with key decision makers. Schedule for briefings in place to support members in effective lobbying.	Nick Lester (Corporate Director), Richard Reeve (Tribunal Manager), Spencer Palmer (Director - T+M), Simon Courage (Head of Grants and Community Services), Mary Vine-Morris, Director (Young People's Education & Skills)	1	2	2

Risk Management				Risk Rating (without controls)					Risk Rating (with controls)		
Risk No.	Risk	Type of Risk	Risk Description (including Implications)	Likelihood (1- 4)	Impact (1 - 4)	Overall	Controls in Place	Risk Owner (Name & Position)	Likelihood (1- 4)	Impact (1 - 4)	Overall
A5	Mishandling or misplacing of sensitive personal data	Compliance, Financial, Reputation	Sensitive personal data released to unauthorised people	2	4	8	Security. Strict controls on receipt and management of data. Use of secure systems such as Notify and promotion of best practice on secure information sharing between organisations through Data Share London, including model agreements and protocol.documents	Spencer Palmer, Director (T+M), Richard Reeve, Tribunal Manager and Simon Courage, Head of Grants and Community Services	1	4	4
A6	ICT failure causes loss of processing capability and inability to deliver public facing and other key services. ICT contractor going into liquidation.	Compliance, Operational & Financial, Project, Reputation, London, Strategic	The main servers for CF, PATAS, Taxicard and LLCS are remote and their loss would severly limit the availability of critical data and could lead to the suspension of public facing services. These and other services (including Grants and notify procurement) are also dependent on the Southwark Street IT network leading to additional complexity in managing continuity. Other services such as LCP are dependent on external IT providers.	4	4	16	The ICT contractor and the in-house IT team have jointly agreed and regularly reviewed disaster recovery programmes are in place, including fault reporting protocols.	Spencer Palmer, Director (T+M), Richard Reeve, Tribunal Manager, and Simon Courage, Head of Grants and Community Services	2	2	4
A7	General failure or delay in delivery of projects involving external partners	Reputation Financial and Operational	Failure to deliver on time and to budget project involving 3rd parties (evidence application for TfL/IBM)	3	3	9	Monitoring and liaison with all relevant parties.	Stephen Boon, Chief Contracts Officer	1	3	3
A8	Failure to comply with equalities legislation and good practice	Compliance, External, Operational, Reputation	To be effective, as well as to comply with legislation, the needs of London's diverse population must be reflected in commissioning priorities, the delivery of commissioned services and in any review into the size and scope of the grants scheme.	3	3	9	All specifications for commissioned services have been subject to assessment for equalities impact. Services are targetted at whoseover has the need for that service. More generally, equalities awareness introduced to every divisional meeting; equalities implications are part of all reports to Committee(s). Staff trained on London Councils equalities approach and legislative requirements.	Simon Courage, Head of Grants and Community Services, Spencer Palmer, Director (T+M), and Richard Reeve, Tribunal Manager, Mary Vine-Morris, Director (Young People's Education & Skills)	2	2	4
A9	Political / legislative change	Reputation Operational Compliance External	Local authority powers / responsibilities could dimish: legislation could transfer local authority powers/responsibilities to other organisations (e.g. VCS, local groups, providers).	3	4	12	Contributing to policy development. Prepare for options following period of local elections.	Mary Vine-Morris, Director, Spencer Palmer, Director (T+M) and Simon Courage, Head of Grants and Community Services	2	2	4

Risk Management				Risk Rating (without controls)				Risk Owner (Name & Position)	Risk Rating (with controls)		
Risk No.	Risk	Type of Risk	Risk Description (including Implications)	Likelihood (1- 4)	Impact (1 - 4)	Overall	Controls in Place		Likelihood (1- 4)	Impact (1 - 4)	Overall
A10	Supplier failure	Financial, Operational, Reputation	Supplier failure puts operational services in jeopardy.	2	4	8	Business continuity plan and intelligence about spotting any potential failures at the earliest opportunity. Regular liaison with all suppliers and working together to resolve issues as they arise.	Spencer Palmer, Director (T+M), Richard Reeve, Tribunal Manager and Simon Courage, Head of Grants and Community Services	1	2	2

	Risk Management				Risk Rating (without controls)					Risk Rating (with controls)		
Risk No.	Risk	Type of Risk	Risk Description (including Implications)	Likelihood (1- 4)	Impact (1 - 4)	Overall	Controls in Place	Risk Owner (Name & Position)	Likelihood (1- 4)	Impact (1 - 4)	Overall

TRANSPORT AND MOBILITY

Risk No.	Risk	Type of Risk	Risk Description (including Implications)	Likelihood (1- 4)	Impact (1 - 4)	Overall	Controls in Place	Risk Owner (Name & Position)	Likelihood (1- 4)	Impact (1 - 4)	Overall
B1	Failure to negotiate Freedom Pass settlement with transport operators by 31 December 2014	Reputation	Statutory default scheme kicks in (which would be more expensive for boroughs and would impact on London Councils' reputation).	3	3	9	Ongoing discussions with TfL over the deal and on production of data.	Spencer Palmer, Director (T+M)	2	3	6
B2	2015 Freedom Pass Reissue	Operational, Reputation, Financial	Failure to reissue all or a significant proportion of 900K passes by end of March 2015. Significant cost escalation of reissue project. Failure to deal adequately with increase in customer enquiries.	2	4	8	Early start to planning and preparation. Outsourcing of reissue processing and customer support to existing contractor. Regular project board meetings with key stakeholders. Regular budget monitoring, reporting and control.	Spencer Palmer, Director (T+M) and Stephen Boon, Chief Contracts Officer	1	3	3
B3	Taxicard applications not assessed.	Operational	Applicants will not receive their cards. Complaints re London Councils performance	1	3	3	Systems in place and managed	Spencer Palmer, Director (T+M)	1	1	1
B4	Taxicard fraud	Operational, Reputation	Users or drivers misuse cards	2	2	4	Detailed audit checks in place	Spencer Palmer, Director (T+M)	1	2	2
B5	Taxicard financial management problems	Reputation, operational and financial	To run out of money for Taxicard part way through the year or underspend	3	3	9	Contract management arrangements.	Spencer Palmer, Director (T+M)	1	2	2
B6	Parking services (TRACE, DVLA link, Northampton County Court link) fail	Operational, Reputation	Borough enforcement compromised and public confidence effected	1	3	3	Capita disaster recovery	Spencer Palmer, Director (T+M)	1	2	2
B7	Parking / Traffic enforcement advice, guidance not provided	Compliance, Operational, Reputation	Boroughs left to own devices and no standardisation	1	4	4	Regular meetings scheduled and advice provided and updated	Spencer Palmer, Director (T+M)	1	1	1

Risk Management				Risk Rating (without controls)					Risk Rating (with controls)		
Risk No.	Risk	Type of Risk	Risk Description (including Implications)	Likelihood (1- 4)	Impact (1 - 4)	Overall	Controls in Place	Risk Owner (Name & Position)	Likelihood (1- 4)	Impact (1 - 4)	Overall
B8	LEPT currency variation	Financial	Rate fluctuation will impact on the LEPT budgets. Lack of income to cover budget.	3	2	6	Constant monitoring	Spencer Palmer, Director (T&M)	3	1	3
B9	HEB permits not issued; HEB permit applications not checked	Financial, Operational, Reputation	Medical practitioners issued with PCNs while on emergency calls; Permits issued to non-emergency attendees	1	3	3	Issuing processing system in place, limited scale of scheme means easy to relocate; Checks in place	Spencer Palmer, Director (T+M)	1	1	1
B10	Lorry Control permits not processed	Operational	Hauliers without permits forced to travel illegally	1	3	3	Permit issue system in place	Spencer Palmer, Director (T+M)	1	2	2
B11	Lorry Control routing advice not provided	Operational	Hauliers not given opportunity to confirm legality of route	2	3	6	Routing advice available	Spencer Palmer, Director (T+M)	1	2	2
B12	Significant Lorry Control enforcement does not take place	Operational	Hauliers allowed to make illegal journeys. Generates complaints from boroughs and public	3	3	9	Contract management of the NSL contract.	Spencer Palmer, Director (T+M)	2	2	4
B13	Lorry Control PCNs not processed	Financial, Operational	Enforcement not demonstrated, no revenue	4	3	12	PCN processing system in place	Spencer Palmer, Director (T+M)	3	2	6
B14	Mid-Term Freedom Pass review issues (Risk removed on 12 May 2014)										

Risk No.	Risk	Type of Risk	Risk Description (including Implications)	Risk Rating (without controls)			Controls in Place	Risk Owner (Name & Position)	Risk Rating (with controls)		
				Likelihood (1- 4)	Impact (1 - 4)	Overall			Likelihood (1- 4)	Impact (1 - 4)	Overall

PATAS

Risk No.	Risk	Type of Risk	Risk Description (including Implications)	Likelihood (1-4)	Impact (1-4)	Overall	Controls in Place	Risk Owner (Name & Position)	Likelihood (1-4)	Impact (1-4)	Overall
C1	New regulations require changes to systems	Compliance, External	New regulations require substantial changes to London Councils systems	2	3	6	Managed Services contractual change mechanism in place , involvement in Government working parties	Spencer Palmer, Director (T+M) and Richard Reeve, Tribunal Manager	2	2	4
C2	London Councils Offices/PATAS hearing centre unavailable	Financial, Operational, Reputation, Strategic	Office and hearing centre facilities become unavailable due to building defect, incident in building or other emergency; causing service interruption which might also affect remote services.	1	3	3	SGPS disaster recovery and plans to move essential processes to remote site. Remote working from home/other available office space (SGPS/London Councils). If necessary PATAS could suspend work for one week and personal hearings for one month. Remote access is available for home/external working on Grants activities.	Spencer Palmer, Director (T+M), Richard Reeve, Tribunal Manager and Simon Courage, Head of Grants and Community Services	1	2	2
C3	Court Judgement requiring significant changes to systems and processes	Operational	Judgement in High Court or Court of Appeal requires major changes in practice / procedures	2	4	8	Contingency budget for IT /info /publicity development - manual workarounds while developments being installed	Richard Reeve, Tribunal Manager	1	3	3
C4	Adjudicator unavailability	Operational	Lack of sufficient adjudicators.	2	4	8	Amending personal hearings if unable to cover them	Caroline Hamilton, Ingrid Persadsingh, Chief Adjudicators, and Richard Reeve, Tribunal Manager	1	4	4
C5	New areas of activity	Operational, Financial, Reputation, Strategic	Taking on new areas of activity that we cannot properly deliver.	3	3	9	Proper analysis and all relevant approvals in advance.	Richard Reeve, Tribunal Manager and Spencer Palmer, Director (T+M)	2	2	4
C6	POPLA	Operational, Financial, Reputation, Strategic	Failure to deliver POPLA effectively on time or within budget.	3	4	12	Effective management and liaison with BPA.	Richard Reeve, Tribunal Manager and Spencer Palmer, Director (T+M)	2	2	4
C7	Capita contract	Operational, Financial and Reputation	Capita fail to deliver on the contract on operating PATAS.	3	4	12	Contract monitoring arrangements	Stephen Boon, Chief Contracts Officer	2	2	4
C8	Capita contract transfer	Operational, Financial and Reputation	In the event of a change of contractor following retender, the service is severely disrupted by the transfer of personel and systems.	3	4	12	Agree service tranfer plan with existing contractor. Regular demobilisation and mobilisation liaison meetings. Contract preparation and planning. Contingency arrangements with Capita.	Stephen Boon, Chief Contracts Officer	2	2	4

Risk Management

Risk No.	Risk	Type of Risk	Risk Description (including Implications)	Risk Rating (without controls)			Controls in Place	Risk Owner (Name & Position)	Risk Rating (with controls)		
				Likelihood (1- 4)	Impact (1 - 4)	Overall			Likelihood (1- 4)	Impact (1 - 4)	Overall

GRANTS

Risk No.	Risk	Type of Risk	Risk Description (including Implications)	Likelihood	Impact	Overall	Controls in Place	Risk Owner	Likelihood	Impact	Overall
D1	Failure to deliver current grants programme 2013/15; not monitoring/ demonstrating the impact of funding according to outcomes in the service specifications for Grants funded services including ESF schemes	Financial, Project, Reputation, London, Strategic	Grant Programme fails to deliver outputs, and outcomes as outlined for each service specification. Risk ability to deliver business plan, the future allocation of funding for the Grants Scheme, London Councils' reputation.	3	4	12	Quarterly RAG rating of providers. Performance management framework to rectify poor performance, supplemented by robust monitoring of funded organisations.	Simon Courage, Head of Grants and Community Services	1	2	2
D2	Not releasing payments when due	Financial Operational Project Reputation	Grant payments are made to organisations on a quarterly basis following the receipt and acceptance of quarterly reporting. Failure to pay organisations on time could damage their cashflow position and undermine their ability to deliver the objectives of the programme.	2	4	8	Grants officers are set targets of paying providers within four weeks of approving the quarterly report. They are monitored to ensure this happens. Where either officers or providers do not meet requirements performance management measures will be put in place.	Simon Courage, Head of Grants and Community Services	1	2	2
D3	Non-receipt of match funding for the programme (borough and/or ESF).	Financial Operational Project Reputation	Payments are made to London Councils from two sources: - ESF (payments in arrears) - Boroughs (payments in advance) Receipt of both sources of income are required in order to pay providers and ensure that London Councils does not run deficits on the ESF programmes. Either could have an negative impact on programme delivery and the financial health of London Councils and providers.	3	2	6	Controls to be developed as part of the handover from MB to SB. SB has developed a financial management template that tracks this information. The following inputs are required to make this operational: - Complete list of borough purchase order numbers to ensure invoices can be raised: - Invoice request forms completed and sent to finance on quarterly basis - Finance to provide regular report of invoices sent and amounts paid - Quarterly calculation of programme expenditure - Quarterly claims made to ESF - Record kept of ESF payments received	Simon Courage, Head of Grants and Community Services	3	1	3

Risk Management				Risk Rating (without controls)					Risk Rating (with controls)		
Risk No.	Risk	Type of Risk	Risk Description (including Implications)	Likelihood (1- 4)	Impact (1 - 4)	Overall	Controls in Place	Risk Owner (Name & Position)	Likelihood (1- 4)	Impact (1 - 4)	Overall
D4	Audit and controls on programmes insufficient and lead to failures putting at risk borough and ESF investment.	Financial Operational Project Reputation	In general, the London Councils Grants Programme is under increasing scrutiny. It is vital that funding is spent on the activities for which it is intended. In particular, ESF is subject to a strict audit regime and receives a minimum of four audit visits per year. At audit, financial claims made by London Councils for S48 and ESF monies must be able to be verified against programme and project records. Where the records do not match claims made, irregularities are reported. If this occurs, London Councils would not be fulfilling its statutory duties and would also be required to repay associated ESF funding.	4	3	12	Controls include: -Strict guidance to providers on ESF regulations -Detailed checking of provider claims prior to payment -Quarterly monitoring visits to providers -Thorough preparation for audit These controls are not currently being applied as well as they should be to the Community Grants element of the programme due to unmet staffing requirement. - NB arrangements with GLE important for M&A costs	Simon Courage, Head of Grants and Community Services	2	1	2
D5	London Councils fails to match its allocation of ESF - currently ca £4.1m short.	Project Reputation	London Councils has a total ESF allocation of £25.5m and has match funded £21.4m. This leaves a total of £4.1m ESF to be matched. This situation is due to a combination of factors; underspends from previous rounds of funding and a reduction in S48 funding to the ESF programme. The way to mitigate this risk is to offer boroughs the opportunity to match fund the ESF, as has been done previously. Should London Councils not be able to match fund the ESF, this could undermine London Councils continued position as an ESF Co-financing Organisation (CFO)	2	2	4	Letter sent to borough Chief Execs and borough contacts emailed.	Simon Courage, Head of Grants and Community Services	2	1	2

Risk Management				Risk Rating (without controls)					Risk Rating (with controls)		
Risk No.	Risk	Type of Risk	Risk Description (including Implications)	Likelihood (1- 4)	Impact (1 - 4)	Overall	Controls in Place	Risk Owner (Name & Position)	Likelihood (1- 4)	Impact (1 - 4)	Overall

COMMUNITY SERVICES

Risk No.	Risk	Type of Risk	Risk Description (including Implications)	Likelihood (1- 4)	Impact (1 - 4)	Overall	Controls in Place	Risk Owner (Name & Position)	Likelihood (1- 4)	Impact (1 - 4)	Overall
E1	London Care Services fails to deliver savings and service improvements for children supported by London boroughs	Reputation and financial	Poor response by providers of children's services and boroughs; recommendations on fees and charges not sustainable	3	3	9	Effective arrangements for engaging providers and boroughs through web, interviews and alignment with borough priorities	Simon Courage, Head of Grants and Community Services	1	2	2
E2	notify 2 fails to maintain support of London boroughs	Reputation and operational	Failure to effect notifications of data between boroughs; loss of data	3	3	9	Engagement of borough officers; security of data	Simon Courage, Head of Grants and Community Services	3	2	6
E3	Service delivery failures as a result of providers withdrawing services to boroughs and not achieving efficiencies	reputational and operational	Failure to support boroughs, user interests and providers in delivery of excellent services	2	2	4	Engagement of borough officers and effective consultation with providers and users in key areas such as data sharing, briefing boroughs, transition of children to adult independence	Simon Courage, Head of Grants and Community Services	1	2	2
E4	London Care Services fails to engage effectively with key stakeholders - the board, boroughs, sub-regions, DfE and PaPA - thereby making its work less relevant	Financial and operational.	Work becomes less relevant. Members question the value of the service and cease paying. Revenue decreases. Ability to deliver undermined.	3	3	9	Regular board meetings at which timely, accurate and relevant information about the service is provided.	Simon Courage, Head of Grants and Community Services	2	2	4

YPES

Risk No.	Risk	Type of Risk	Risk Description (including Implications)	Likelihood (1- 4)	Impact (1 - 4)	Overall	Controls in Place	Risk Owner (Name & Position)	Likelihood (1- 4)	Impact (1 - 4)	Overall
F1	Lack of understanding of the needs of London's young learners	Reputation Operational	There is a risk that if policy and strategy are developed independent of the needs of young people, they will not achieve the necessary transformation of the sector in London	2	4	8	Improving the engagement of young people and key stakeholders in "Learner Voice London", participating in critical projects (such as the LEP) with strategic partners and maintaining a robust evidence base with our Data and Academic Partners	Mary Vine-Morris, Director	1	2	2
F2	Partnership of stakeholder working loses coherence	Reputation Operational	Partner disengagement imperils funding and will reflect badly on London Councils' ability to coordinate, lead and influence boroughs effectively	2	3	6	Board and working group structure maximises partner engagement	Mary Vine-Morris, Director	1	2	2

Risk Management				Risk Rating (without controls)					Risk Rating (with controls)		
Risk No.	Risk	Type of Risk	Risk Description (including Implications)	Likelihood (1- 4)	Impact (1 - 4)	Overall	Controls in Place	Risk Owner (Name & Position)	Likelihood (1- 4)	Impact (1 - 4)	Overall
F3	Implementing the strategic vision for young people's education and skills does not contribute to the achievement of full participation for 16-18 year-olds by 2015	Reputation Operational	YPES' work plan does not address the major priorities of Local Authorities, or influence their operations	3	3	9	Quarterly meetings of all London LAs (Forum / conference) together with workshops / seminars on specialist themes ensures a constant focus on Local Authorities' priorities	Mary Vine-Morris, Director	1	2	2
F4	YPES does not link effectively with nor influence key decision makers such as the DfE, LGA, GLA and ALDCS	Compliance Financial Reputation Operational	Failure to identify critical factors to inform and influence local and regional environment	2	3	6	Maintain effective working relationship with other strategic partners and suppliers	Mary Vine-Morris, Director	1	2	2
F5	London is not adequately prepared for the reform of provision for young people with Special Education Needs and Disabilities, including funding	Compliance Financial Reputation Operational	YPES does not influence the development of national policy or the effective implementation of the reforms in London	3	3	9	Scanning the policy horizon and keeping abreast of legislation enables YPES to provide a creative input to key decisions appropriately, while uprating the structures that provide support to SEN / LLDD ensures systematic and consistent Pan London implementation	Mary Vine-Morris, Director	1	3	3
F6	The ESF Youth Programme for 2014-2020 lacks integrated commissioning	Operational	There is a risk that, without integrated commissioning, different funding streams may duplicate their effort, compete inefficiently for recruits and dilute their collective impact on youth unemployment	3	3	9	Delivery of the work programme of the External Funding Group and maintaining strategic influence with key partners	Mary Vine-Morris, Director	2	3	4

Risk Management				Risk Rating (without controls)					Risk Rating (with controls)		
Risk No.	Risk	Type of Risk	Risk Description (including Implications)	Likelihood (1- 4)	Impact (1 - 4)	Overall	Controls in Place	Risk Owner (Name & Position)	Likelihood (1- 4)	Impact (1 - 4)	Overall

CAPITAL AMBITION

G1	London Councils does not manage its Capital Ambitions programme and projects effectively	Compliance Financial Reputation Operational	Lack of programme and project management will expose London Councils to financial and / or reputational loss (including failure under audit or legal challenge)	3	3	9	Robust programme management in place; a programme review is underway, instigating active and immediate remedial actions if and when necessary; ongoing scrutiny by Capital Ambition Board and sub-groups Note the Capital Ambition Board has closed the fund to new applications, limiting the scope for new issues.	Mary Vine-Morris, Director	1	2	2
G2	Capital Ambition projects run in partnership (e.g. those co-funded or sponsored by private sector organisations) are distorted and become inconsistent with the values and / or behaviours expected of London Councils	Compliance Financial Reputation Operational	Some private sector practices may be unacceptable to London Councils and some organisations may not be attracted by the degree of transparency associated with dealing with London Councils and their partners - this could impact on the initiation, the means and the outcomes of delivery	3	4	12	Work on a future organisational model is led by the Capital Ambition Board and managed by senior officers with consistent reference to London Councils requirements; upfront, clear, open and honest communication with partners; and reference to specialist advisers as and when necessary (e.g. governance, legal, finance and procurement).	Mary Vine-Morris, Director	1	2	2
G3	Capital Ambition projects do not deliver and / or realise benefits for participating local authorities / boroughs	Compliance Financial Reputation Operational Project	Boroughs will not realise benefits from the work and will have to absorb the costs and opportunity costs where investment in projects does not demonstrate benefits. Government and local authorities will be less likely to involve or support London Councils in future improvement and efficiency work, potentially missing the advantages of regional leadership and scale fostered by London Councils and the Capital Ambition brand.	3	3	9	Note that this risk has largely been shared out by commissioning project lead local authorities and partners to control day-to-day project management. Programme management activities are expected to identify issues with delivery and assure remedial actions are instigated; staged delivery and monitoring will manage these risks and financial controls are in place to regulate spending.	Mary Vine-Morris, Director	2	2	4

Risk Management				Risk Rating (without controls)					Risk Rating (with controls)		
Risk No.	Risk	Type of Risk	Risk Description (including Implications)	Likelihood (1- 4)	Impact (1 - 4)	Overall	Controls in Place	Risk Owner (Name & Position)	Likelihood (1- 4)	Impact (1 - 4)	Overall
G4	Capital Ambition London Ventures does not deliver projects with demonstrable benefits for participating local authorities and boroughs	External Project Reputation London Strategic	This risk centres on London Ventures failing to generate projects that deliver LC and borough priorities and demonstrable results; or by extension, generating projects with negative impacts on LC and boroughs. LV is currently embryonic, building relationships and has to define viable projects and meaningful measures of success. The project constraints remain tight.

Implications include: potential damage to key relationships with local authorities and other stakeholders and a reduced willingness towards future partnership working, with impacts on the reputation of LC and on public service delivery. | 4 | 2 | 8 | Controls include: defining and delimiting the project scope as a "brokerage" role; buying in expertise from and sharing risks (notably reputational) with Ernst & Young and to an extent with voluntary private and local authority stakeholders. Directing delivery through LC governance arrangements; managing contract specifications and clear gateways e.g. controlled investment and payment schedule; clearly staged project cycle, with deliverables and key performance indicators; and ensuring dialogue with key stakeholders and managing communications at all project stages. | Mary Vine-Morris, Director | 2 | 1 | 2 |
| G5 | Capital Ambition does not use unallocated resources to best strategic effect | Compliance Financial Project Reputation London Strategic | This risk centres on LC failing to use unallocated resources to optimise improvement, innovation or efficiency. The effects could include; delayed decisions; efforts are duplicated; delivery is untimely; strategic opportunities are missed or resources are wasted, delivering no demonstrable benefits. | 3 | 2 | 6 | Controls include: defining and delimiting clear strategic options for decision-makers; ensuring decision-making is aligned with and informed by policy 'horizon-scanning' through active relationships with members, LV, PAPA, LGA, LCEN and project leading boroughs; work to ensure commissioning is robust', including clear business cases, delivery mechanisms and anticipated benefits, explicit grant award agreements; and an ongoing programme management capacity for work during the coming period. | Mary Vine-Morris, Director | 2 | 2 | 4 |
| G6 | Capital Ambition does not effect adequate project closures, securing information about benefits and legacies for wider communication and dissemination | External Operational Project Reputation London | This risk centres on LC failing to close down the CA projects and programme effectively. The implications are that there is no coordinated dissemination and access to knowledge and learning about benefits and legacies for London authorities and potentially dissatisfaction amongst key stakeholders concerning LC delivery of intended CA outcomes. | 4 | 1 | 4 | Controls include: ongoing member-led governance to ensure clear communications priorities; ongoing programme management capacity, with an emphasis on working with project leaders, collating and communicating information about programme benefits realisation and legacies; work through London Ventures to build on legacy relationships and arrangements where appropriate and ensure due credit; and increased support from LC Communications to identify and exploit appropriate communications opportunities; including refocussing the CA brand within the LC portfolio and programming future communications. | Mary Vine-Morris, Director | 2 | 1 | 2 |

Audit Committee

Review of the Annual Governance Statement

Item no: 05

Report by:	David Sanni	**Job title:**	Head of Financial Accounting
Date:	15 July 2014		
Contact Officer:	David Sanni		
Telephone:	020 7934 9704	**Email:**	david.sanni@londoncouncils.gov.uk

Summary   This report:

- Reviews each element of the current Annual Governance Statement (AGS);

- Highlights any continuing and potentially new areas for development (and those from previous years that have been addressed); and

- Makes recommendations for revisions that will be contained in the AGS to be included in the audited Statutory Accounts for 2013/14.

Recommendations   The Audit Committee is asked:

- To note the summary of the internal audit reviews undertaken during 2013/14 and the opinion of the Head of Audit and Risk Management at the City of London on the overall control environment, as detailed in Appendix B; and

- To approve the recommended changes to the AGS for 2012/13, as detailed in Appendix A, to produce the AGS for 2013/14 for inclusion in London Councils' statutory accounts for 2013/14, as detailed in Appendix C.

Introduction

1. London Councils is required to prepare and publish an Annual Governance Statement (AGS) in accordance with the *CIPFA/SOLACE Framework – Delivering Good Governance in Local Government* (the framework). This is necessary to meet the statutory requirement set out in Regulation 4(3) of the Accounts and Audit Regulations (2011). The regulation requires authorities to conduct a review at least once a year of the effectiveness of its system of internal control and to approve an AGS, prepared in accordance with proper practices in relation to internal control.

2. The framework also requires at least an annual review of the governance framework which should be reported to the Audit Committee. The AGS for 2012/13 was approved at the Audit Committee meeting on 20 June 2013.

3. This report will therefore:

   - Review each element of the current AGS;
   - Highlight any continuing and potentially new areas for development (and those from previous years that have been addressed) and how these will be addressed; and
   - Make recommendations for revisions that will be contained in the AGS to be included in the audited Statutory Accounts for 2013/14.

4. As well as drawing on evidence from the internal audit work that has been undertaken by the City of London during the course of the year, this review will also draw on the feedback provided by London Councils' external auditors, PricewaterhouseCoopers (PwC) following the conclusion of their interim audit in March 2014.

5. Appendix A to this report details the AGS that was contained in the audited Statutory Accounts for 2012/13 with recommended changes shown in red using the tracked changes function on MS word.

Scope of Responsibility (paragraphs 1 to 3)

6. It is recommended that the wording of this section as contained within the existing AGS should remain the same, with the exception of the removal of the reference to "*proper standards*" and minor grammatical and punctuation changes.

The Purpose of the Governance Framework (paragraphs 4 to 6)

7. It is recommended that the wording of this section as contained within the existing AGS should remain the same; with the exception of the date contained in paragraph 6 which should be amended from 31 March 2013 to 31 March 2014 and minor grammatical changes.

The Governance Framework (paragraph 7 with 20 bullet points)

8. There are recommended changes to this section to reflect current arrangements within London Councils and minor grammatical and presentational changes.

Review of Effectiveness (paragraph 8 with 3 bullet points)

9. There are recommended changes to the second bullet point to update the reference to the financial year from 2012/13 to 2013/14 and a minor grammatical change to the first bullet point.

Areas for Development (paragraph 9)

10. There is a recommended change to update the reference to the next financial year from 2012/13 to 2013/14.

Areas for Development – Information Security (paragraph 10)

11. It is recommended that the title of this paragraph is renamed and the wording updated to reflect the outcome of the ICT review carried out during 2013/14.

Areas for Development – Parking and Traffic (paragraph 11)

12. It is recommended that this area for development is updated to reflect that whilst there has been progress in updating section procedure notes there is still some work to be completed during 2014/15 due to the replacement of the management information software.

Areas for Development – Taxicard Scheme (paragraph 12)

1. It is recommended that this area for development is updated to reflect that whilst there has been progress in updating section procedure notes, there is still some work to be completed during 2014/15 due to recent and proposed changes to existing processes.

Areas for Development – Freedom Pass (paragraph 13)

2. It is recommended that this area for development is removed as all the recommendations have been implemented.

Areas for Development – Governance Arrangements (paragraph 14)

3. It is recommended that this area for development is removed as all the recommendations have been implemented.

Areas for Development – Recruitment and Payroll Adjustments (paragraph 15)

4. It is recommended that this area for development is removed as all the recommendations have been implemented.

Areas for Development – New issues arising during 2013/14

5. The City of London's internal audit team has undertaken six separate pieces of work during 2012/13; namely:

   - London Lorry Control System – Full review;
   - ICT Strategy, Security, Operations and Business Continuity - Full review;
   - Grants – Full Review;

- Third Party payments – Full review;
- Petty Cash, Safe Contents, Creditor Depth tests and Inventory – Spot check review; and
- Freedom Passes – Follow up review.

6. A summary of the results of these reviews are detailed at Appendix B

7. Following the review of the internal audit work carried out over the past year it is recommended that the additional areas for development are included in the AGS for 2013/14 with regard to Grants, Inventory, London Lorry Control Scheme System and a revision to the Information Security paragraph included at paragraph 10.

Areas for Development (paragraph 16)

8. It is recommended that the wording of this paragraph as contained within the existing AGS remains the same.

Significant Governance Issues (paragraph 17 to 19)

9. It is recommended that the wording of this section is revised to reflect the outcome of the Grants review and that there is no significant governance issue.

10. PwC will comment on the robustness of the AGS when they undertake the external audit of the 2013/14 accounts during July/August and reference will be made to this in the annual audit report that will be issued to members by the statutory deadline of 30 September 2014. A situation could arise whereby PwC consider some of the issues classed as "Areas for Development" to be significant, and could, therefore, make recommendations in the audit report that these be raised to Significant Governance Issues.

Draft Annual Governance Statement for 2013/14

11. The recommended changes to the AGS for 2012/13, as detailed in this report and Appendix A, have been incorporated into the draft AGS for 2013/14, which, if approved by the Committee, should be incorporated into London Councils' statutory accounts for 2013/14. The draft AGS for 2013/14 is detailed at Appendix C.

Financial Implications

None

Legal Implications

None

Equalities Implications

None

Appendices

Appendix A – Recommended Changes to AGS for 2012/13 with tracked changes
Appendix B – Summary of Internal Audit Reviews for 2013/14 and the Head of Audit and Risk Management's Opinion
Appendix C – Draft AGS for 2013/14

Background papers

Final Accounts working files for 2013/14
Internal Audit working files for 2013/14

ANNUAL GOVERNANCE STATEMENT

Scope of responsibility

London Councils (the Committee) is responsible for ensuring that its business is conducted in accordance with the law, ~~and proper standards, and~~ that public money is safeguarded, ~~and~~ properly accounted for, and used economically, efficiently and effectively. The Committee is also responsible for securing continuous improvement in the way its functions are exercised.

In discharging this overall responsibility, the Committee is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

London Councils has approved and adopted a code of corporate governance in the form of a framework, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of London Councils Corporate Governance Framework can be obtained from the Director of Corporate Governance at 59½ Southwark Street, London SE1 0AL. This statement explains how London Councils has applied this code and also meets the requirements of regulation 4(3) of the Accounts and Audit Regulations 2011.

The purpose of the governance framework

The governance framework comprises the systems, ~~and~~ processes, ~~and~~ culture and values, by which the Committee is directed and controlled and ~~its~~ such activities through which it accounts to, and engages with, its stakeholders. It enables the organisation to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risks of failure to achieve policies, aims and objectives and can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Committee's policies, aims and objectives, to evaluate the likelihood of those risks being realised, ~~and~~ the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at London Councils for the year ended 31 March ~~2013~~ 2014 and up to the date of approval of the statement of accounts.

The governance framework

The key elements of the Committee's governance framework include:

- **Identifying and communicating the Committee's vision of its purpose** – The Committee produces an annual Corporate Business Plan which sets out the organisation's priorities for the year. This is informed by on-going liaison with key borough stakeholders and specifically by a programme of meetings between the Chair and all Executive portfolio holders. The Corporate Business Plan is

submitted to the Leaders' Committee. There are a number of ways in which the Committee communicates with relevant stakeholders which include member briefings, committee and ~~forum~~ other meetings and events such as the London Councils' Summit.

- **Reviewing the Committee's vision** - The Committee produces an Annual Review at the end of each financial year. The review provides a summary of the key activities over the last year and highlights the key achievements.

- **Measuring the quality of services** - Data collected during the year feeds into the production of a key achievements report at the year end. London Councils Corporate Management Board (CMB), the London Councils Executive and the Grants and Transport and Environment~~C~~ Committees receive regular financial management reports that monitor actual income and expenditure trends against approved budgets. London Councils operates a complaints procedure which provides an opportunity to put things right if an error is made and assists in the search to improve the quality of services to member authorities and to Londoners. There are also a number of internal management mechanisms, such as 1:1 review meetings and a fully embedded performance appraisal framework which monitor on-going progress against objectives.

- **Defining and documenting roles and responsibilities –** The London Councils Agreement sets out the main functions and obligations of London Councils and its member authorities. The Agreement includes the standing orders and financial regulations which provide details of the delegation arrangements in place. There is a scheme of delegation in place which was last reviewed, updated and approved by the Leaders' Committee at ~~their~~ its Annual General Meeting on 1~~1~~4 June 201~~1~~3. There is an established protocol which provides guidance on the working relationships between elected members and officers. Additional information on the roles and responsibilities of London Councils ~~Executive, Leaders, Grants and TEC Committees~~Leaders' Committee, Executive, Grants Committee and Transport and Environment Committee are documented in their individual Terms of Reference. All London Councils officers are issued with a job description which confirms their duties within the organisation.

- **Developing, communicating and embedding codes of conduct** – All London Councils Staff have been made aware of the staff handbook which is located on the intranet site. The staff handbook sign posts staff to London Councils policies and procedures which are on the intranet~~, specifically mentioning financial regulations and the code of conduct~~. All staff are encouraged to refer to the intranet when they require guidance on London Councils policies and procedures. Reference to ~~T~~the staff handbook is also included in the induction training of all new staff joining London Councils with their attention specifically drawn to the financial regulations, the code of conduct, data protection and London Councils whistle blowing policy.~~.~~

- **Reviewing the effectiveness of the Committee's decision-making framework -** The standing orders and financial regulations are included within the London Councils Agreement. The standing orders were last reviewed ~~in June 2011~~ and the changes ~~were~~ approved by Leaders' Committee on 19 October

2012. The financial regulations were reviewed and the changes approved by the Executive in February 2009. Minutes of Committee meetings are posted on London Councils ~~internet~~web site and provide an official record of decisions made.

- **Identifying and managing risks** - London Councils Risk Management Strategy and Framework was reviewed and updated in 2011/12 and approved by the Audit Committee in March 2012. London Councils Corporate Risk Register is primarily compiled from the Risk Registers for each of London Councils three Directorates. The Corporate Risk Register is reviewed in accordance with London Councils Risk Management Framework which includes an annual review by the Audit Committee and was last reviewed in September ~~2012~~2013. The Directorate Risk Registers are reviewed by the Audit Committee each financial year. London Councils' Corporate Management Board ensures that the risk registers, both Directorate and Corporate, continue to support London Councils' corporate priorities, which provides members with assurance on how the risks identified are being managed. An internal audit review of London Councils risk management arrangements was carried out during 2011/12. The review established that risk management is an embedded governance control and there were no recommended improvements to the arrangements.

- **Anti-fraud and anti-corruption arrangements** – London Councils is committed to having an effective Anti-Fraud and Anti-Corruption strategy designed to promote standards of honest and fair conduct, prevent fraud and corruption, detect and investigate fraud and corruption , prosecute offenders, recover losses and maintain strong systems of internal control. There are two separate policies in place – London Councils Whistle Blowing Policy which was last updated in November 2013 and London Councils Policy to Combat Fraud, Bribery and Corruption, which was agreed by London Councils Audit Committee in March 2014 – both ~~which~~ are available on London Councils' intranet and website.

- **Effective management of change and transformation** – London Councils has a framework for managing organisational change which is available to all staff on the intranet. The framework provides guidance on the statutory elements of managing change and issues that should be considered when implementing changes.

- **Financial management arrangements** – London Councils' financial management arrangements conform with the governance requirements of the CIPFA statement on the Role of the Chief Financial Officer in Local Government.

- **Assurance arrangements** – London Councils' internal audit function is carried out by the City of London's internal audit team under a service level agreement for financial support services. These arrangements conform with the governance requirements of the CIPFA statement on the Role of the Head of Internal Audit in public service organisations.

- **Discharge of the monitoring officer function –** The City of London's Comptroller & City Solicitors Department (Public and Corporate Law) undertakes the monitoring officer function under a service level agreement for legal services.

London Councils' Director of Corporate Governance is charged with ensuring that any monitoring officer duty is commissioned from the City of London. As with all Committee officers, the Director of Corporate Governance is issued with a job description which confirms her duties within the organisation. She is subject to London Councils appraisal arrangements which assess her performance against agreed objectives.

- **Discharge of the head of paid service function** – London Councils' Chief Executive is the head of paid service. As with all Committee officers, the Chief Executive is issued with a job description which confirms his duties within the organisation. He is subject to appraisal arrangements with Group Leaders who assess his performance against agreed objectives.

- **Audit Committee** – London Councils' Audit Committee has its own comprehensive Terms of Reference. The Terms of Reference were reviewed by the Audit Committee on 24 September 2010. The Audit Committee meets three times a year and is chaired by a leading member from a borough who is notcan be a member of the Leaders' Committee Executive. The members of the Audit Committee will normally, but not necessarily, be members of London Councils Leaders' Committee and with the exception of its chair, are not members of the Executive.

- **Compliance with relevant laws and regulations** - London Councils has comprehensive financial regulations and a comprehensive set of human resources policies and procedures, which are reviewed on a regular basis. These arrangements ensure compliance with all applicable statutes, regulations and other relevant statements of best practice in order to ensure that public funds are properly safeguarded and are used economically, efficiently and effectively and in accordance with the statutory and other authorities that govern their use.

- **Whistle-blowing** – London Councils has a whistle-blowing policy which is available to all staff on the intranet. The policy aims to encourage staff and others to feel confident in raising serious concerns by providing clear avenues through which those concerns can be raised and reassuring staff who raise concerns that they will not be victimised if they have a reasonable belief and the disclosure was made in good faith. It is also on the website and staff are encouraged to bring this policy and the policy to combat fraud, bribery and corruption to the attention of contractors and third parties.

- **Identifying the development needs of members and officers** – London Councils has access to a programme of training and development, which is available to all staff and can be found on the intranet. The aim of the programme is to assist in the achievement of the organisation's aims and objectives by providing opportunities for staff to gain the necessary skills and knowledge required to perform their tasks and duties effectively. London Councils also has a performance appraisal scheme which provides all staff with regular assessments of their performance and development needs in relation to their work objectives. Members have access to training in their own authorities. There is a member only section on London Councils' website which provides them with useful

information, regular briefings in specific policy areas and a forum for information exchange.

- **Establishing clear channels of communication** – London Councils actively engages with relevant stakeholders when developing its vision and strategies. All Committee meetings are open to the public and consultations are undertaken where relevant. London Councils issues member briefings and arranges a number of events, conferences and seminars that also provide opportunities for stakeholder engagement. London Councils produces an Annual Review which provides a summary of the key achievements over the last year and annual statutory financial statements. Information on consultations, minutes of committee meetings and publications are posted on London Councils internet website www.londoncouncils.gov.uk. London Councils consults with Chief Officer groupings across boroughs in the development of its work.

- **Enhancing the accountability for service delivery and effectiveness of public service providers** - All working arrangements with public service providers are subject to signed agreements/contracts which set out the terms of the service provided. All agreements/contracts are reviewed to ensure that the roles and responsibilities of the parties involved are clearly defined and the terms are beneficial to London Councils and its member authorities. Key performance indicators are incorporated into agreements where appropriate and monitored regularly. Nominated officers are responsible for managing the outcomes of the service and establishing clear lines of communication with providers.

- **Partnership arrangements** – London Councils has a set protocol for staff to follow when working in partnership with outside bodies. A checklist is to be completed for each new partnership or project. Partnership arrangements are also subject to signed agreements which include objectives, roles and responsibilities. The performance of partnerships are monitored in the same manner as other service providers. London Councils does not currently have any material partnership arrangements.

Review of effectiveness

London Councils has responsibility for conducting at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of London Councils Corporate Management Board which has responsibility for the development and maintenance of the governance environment, the internal audit annual report and also by comments made by the external auditors in their annual audit letter and other reports. The review of the effectiveness of the governance framework includes:

- The work of Internal Audit, undertaken by the City of London under a Service Level Agreement, and the annual opinion of the Head of Audit & Risk Management at the City of London. Internal Audit plays a central role in providing the required assurance on internal controls through its comprehensive risk-based audit of all auditable areas within a five-year planning cycle, – with key areas being reviewed annually. This is reinforced by consultation with London Councils Corporate Management Board and London Councils' Audit Committee

on perceived risk and by a rigorous follow-up audit regime. The Internal Audit Section of the City of London operates, in all aspects, in accordance with the CIPFA Code of Practice. An internal audit review of governance arrangements was carried out during 2012/13 with the outcome reported to the Audit Committee in March 2013.

- The Audit Committee's review of the governance arrangements in place during 2012/132013/14.

- London Councils Corporate Management Board considers an annual report on Corporate Governance, which includes work completed during the current year and highlights work planned for the following year.

Areas for development during 2013/142014/15

The review of the effectiveness of London Councils governance arrangements has revealed the following areas for development during 2013/142014/15:

Grants

An internal audit review of the Grants programme was undertaken in 2013/14. The audit reviewed the management controls which ensure that grants are issued in accordance with established priorities and the adequacy of due diligence checks, monitoring procedures and payment processes. The review also measured the extent to which the recommendations of the 2012 grant investigation had been implemented. The review established that *"there is a sound control environment with risks to system objectives being reasonably managed. Any deficiencies identified are not cause for major concern"*. There was one recommendation for the introduction of additional reference checks on organisations which have never been funded by London Councils or receive annual funding in excess of £1 million. The recommendation was implemented from April 2014.

ICT Strategy, Security & Operational Control Information Security

A review of the Committee's information securityICT strategy, security and operational control was undertaken during 2009/102013/14 by the Internal Audit Team. The review revealed that whilst an adequate control framework was in place, there were a number of areas that required addressing such as updating the overall ICT strategy and the business continuity and disaster recovery plans. There were also recommendations on improvements to system security, hardware infrastructure, performance monitoring and staff data security awareness. The report acknowledged that management was already taking action to address a number of the issues that were raised. The outstanding recommendations will be implemented during 2014/15. The main areas of development recommended by the review relate to seeking assurances on the adequacy of information security of partners/contractors, the classification of information held by the Committee, the transfer of data to and from partners/contractors, enhancing ICT security arrangements and the introduction of an information management policy. The delivery of London Councils' ICT function was transferred to the City of London in August 2011. As a result there have been significant changes to the operation of the ICT function which has affected key positions referred to in draft policy documents as well as security arrangements. Whilst good progress had been made towards implementing the

recommendations of the original review, it is necessary to review these recommendations and draft policy again in the context of the new arrangements. A review of the strategy, security and operations of the ICT function will be carried out in 2013/14 and any additional recommendations identified during this review will be considered for implementation.

Inventory

An internal audit spot check of petty cash, creditor payments, safe contents and inventory lists was carried out during 2013/14. The check included an examination of procedures over the petty cash imprest, safe access and security, inventory and a creditor depth test for a sample of transactions. The review revealed that the inventory list for furniture and equipment had not been updated on a regular basis. The recommendation included in the spot check report will be implemented during 2014/15.

London Lorry Controls Scheme

An internal audit review of the London Lorry Control IT System was undertaken in 2013/14. The audit reviewed controls in relation to system strategy, management responsibility, configuration, security, operational procedures and resilience. The review provided assurance on the data integrity of the whole system. The recommendations included in the report relate to the incorporation of the debt registration functionality, performance monitoring reports, segregation of duties and system security protocols. A number of the recommendatins have already been implemented with the remainder being implemented during 2014/15.

Parking and Traffic

A follow up review of the Parking and Traffic Division was carried out during 2011/12. The original review examined the controls in place to ensure that all charges are accurately identified and recharged to the relevant organisation, that payments to the main contractor and Parking Adjudicators are accurate and reflect services provided and the adequacy of procedures and systems for monitoring performance. The follow up review revealed that some of the recommendations had not been implemented due to prohibitive implementation costs. There are still some improvements to be made on operational procedure notes which have been delayed as a result of a change in the business object software used to compile management information. These improvements that will be implemented during 2013/142014/15.

Taxicard Scheme

A follow up review of London Councils' Taxicard Scheme was completed in 2011/12. The original audit reviewed the management arrangements for the scheme as well as establishing and examining arrangements in place to monitor the contract held with Computer Cab. The follow up review revealed that there had been a delay in implementing a recommendation regarding the regular updating of procedure manuals. There has been progress made on the update of procedure manuals during 2013/14 but the exercise has not yet been completed as recent and proposed changes will have to be incorporated in the final version. These improvements will be completed during 2014/15. The implementation had been delayed due to the procurement and outsourcing of elements of the scheme. A revised target implementation date of December 2013 has

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been set for the update of the procedural guidance once new working practices have had time to embed.

Freedom Pass

An internal audit review of the Freedom Pass concessionary fares scheme was carried out in 2012/13. The audit assessed controls in relation to the processing of applications, issuing of cards, verification and payment of claims submitted by transport companies and the adequacy of systems for budgeting and budgetary control. The review also considered the robustness of the process to agree settlements with transport companies. It was established that there is a sound control environment with risks to system objectives being reasonably managed. The recommendations included in the review relate to the need to obtain additional assurance from member boroughs, that do not use the Post Office service, that sufficient controls exist to check the identity and entitlement of applicants and progress the introduction of independent National Fraud Initiative data matching for freedom pass holder details. The recommendations will be implemented during 2013/14.

Governance Arrangements

An internal audit review of London Councils' governance arrangements was carried out in 2012/13. It established that there is a sound control environment with risks to system objectives reasonably managed. The Chairs of London Councils' committees provided suggestions on ways to improve reporting and the committee decision making processes. All the suggestions have been implemented.

Recruitment and Payroll Adjustments

An internal audit spot check of recruitment and payroll adjustments was carried out in 2012/13. The audit reviewed the controls in relation to the recruitment of new staff, the certification of payroll adjustments in respect of sickness absences and compliance with government guidelines on Statutory Sick Pay. It established that the controls were generally operating satisfactorily but there were some areas of development identified in relation to document retention. The recommendations made in the report will be implemented in 2013/14.

London Councils will take adequate steps over the coming year to address the above matters in order to further enhance its governance arrangements. London Councils is satisfied that these steps will address the improvement needs identified in the effectiveness review. London Councils will monitor their implementation and operation as part of our next annual review.

Significant governance issues

Grants

In July 2012 the Grants Committee considered a report which raised significant concerns about a grant commissioned to a particular organisation. An internal audit investigation was commenced and a report presented back to the Committee in November 2012. The internal audit report made seven recommendations to improve controls on the monitoring of projects, retention and archiving of records, management oversight,

~~prompt response to projects with issues and protocols for notifying the Grants Committee, relevant senior officers and third parties where concerns exist.~~

~~As the internal audit report raised some serious issues and highlighted a potential breakdown in internal controls regarding the payments of grant to this particular organisation, London Councils Chief Executive commissioned a further, independent review to ascertain the circumstances as to why these events occurred and to form a view as to whether or not the responses to the recommendations of the internal audit report were sufficiently robust to provide a reliable system of internal control into the future. This review made further recommendations regarding:~~

- ~~the review of the operation of commissioning arrangements;~~
- ~~the priority to be afforded to securing outcomes and safeguarding public funds;~~
- ~~monitoring processes involving officers and members;~~
- ~~the triggers for warning senior managers and members;~~
- ~~revisions to Financial Regulations; and~~
- ~~protocols for referrals to the Metropolitan Police.~~

~~London Councils Chief Executive, Corporate Director of Services and Director of Corporate Resources fully accepted the conclusions and recommendations included in the report as well as those highlighted in the internal audit investigation. This was reported to both the Audit Committee and Grants Committee. A framework has been developed which incorporates the recommendations from both reviews. The procedures incorporated in the framework have been applied to all commissions since 1 April 2013.~~ There are no significant governance issues.

John O'Brien   September ~~2013~~2014
Chief Executive

Mayor Jules Pipe   September ~~2013~~
2014
Chair of London Councils

London Councils – AUDIT COMMITTEE

Internal Audit Reviews for the Twelve Months to 31st March 2014

Introduction

This report sets out the work that has been undertaken at London Councils by the City of London Corporation's Internal Audit Section during the period 1st April 2013 to 31st March 2014 and details the current position concerning outstanding recommendations where follow-up reviews have been completed. A comprehensive schedule of work completed within the financial year is included in Table One.

System Reviews Completed During 2013/14

London Lorry Control Scheme System (15 days) ✅

The audit reviewed controls in relation to system strategy, management responsibility, configuration, security, operational procedures and resilience. The review provided assurance on the data integrity of the whole system. The recommendations included in the report relate to the incorporation of the debt registration functionality, performance monitoring reports, segregation of duties and system security protocols.

Agreement was obtained that all recommendations would be implemented by 31st August 2013.

Recommendations	Red	Amber	Green	Total
Number Made:	0	0	6	6
Number Accepted:	0	0	6	6

ICT Strategy, Security, Operations and Business Continuity (15 days) ⚠️

The audit reviewed controls in relation to the IT strategy, segregation of duties and responsibilities, configuration and infrastructure, access controls, operational procedures and business continuity. The review revealed that whilst an adequate control framework was in place, there were a number of areas that required addressing such as updating the overall ICT strategy and the business continuity and disaster recovery plans. There were also recommendations on improvements to system security, hardware infrastructure, performance monitoring and staff data security awareness. The report acknowledged that management was already taking action to address a number of the issues that were raised.

Agreement was obtained that all recommendations would be implemented by 31st August 2014.

Recommendations	Red	Amber	Green	Total
Number Made:	0	7	10	17
Number Accepted:	0	7	10	17

Grants (including probity checks) (15 days)

There has been a notable improvement in the processes and controls of the London Councils' grants scheme since the previous audit in October 2012. Where appropriate, Internal Audit have conducted 100% sample testing in order to provide greater assurance. The application and shortlisting process prior to the programme's instigation is fair and transparent. Candidates' operational and financial eligibility is verified prior to acceptance into the scheme. Formal grant agreements are in place to clearly dictate the terms of the funding and safeguard London Councils' finances. The returns process is quarterly, clearly documented, consistently applied and it has been evidenced that payments are not processed without submission of the required documentation. Furthermore, all expected payments to date have been processed correctly.

On consideration of the high value of some of the grants and the BNRRN issue in 2012, a minor opportunity for improving reference checks has been recommended. The introduction of a second reference check for organisations which have not been funded by London Councils before, or for those awarded over £1million per year, should be considered to further manage the risk of adverse performance issues during future grants programmes.

Recommendations	Red	Amber	Green	Total
Number Made:	0	0	1	1
Number Accepted:	0	0	1	1

Third Party Payments (15 days)

This review focussed on ensuring that the refunds supplied to each London borough were consistent and in accordance with the terms agreed by councillors, following the agreement to reduce London Councils' reserves. In addition, the distribution of funds for the Metropolitan Police Service (MPS) child safeguarding initiative across the boroughs was assessed. For both areas, Internal Audit considered promptness of payment, consistency and transparency of process.

No recommendations have been made as a result of this review.

Spot Check Review – Petty Cash & Safe & Inventory) (1 day)

For a sample of transactions reviewed, the majority of the systems reviewed were operating satisfactorily and in accordance with Financial Regulations. There are, however, weaknesses in the maintenance of inventories which are currently out of date since 2010.

Recommendations	Red	Amber	Green	Total
Number Made:	0	0	1	1
Number Accepted:	0	0	1	1

Follow-up Review: Freedom Passes (1 day)

RAG Rating	Recommendations	Implemented	Partially Implemented	Outstanding
(red)	0	0	0	0
(amber)	0	0	0	0
(green)	2	2	0	0
Total	**2**	**2**	**0**	**0**

Other Follow-up Activity

London Lorry Control Scheme System

Management have provided verbal confirmation that all recommendations have now been implemented. There were six green-rated recommendations.

Issue	Red	Amber	Green	Comment
Functionality	0	0	1	Implemented
Adaptis SLA	0	0	1	Implemented
Segregation of Duties	0	0	1	Implemented
Access Security	0	0	1	Implemented
System Changes	0	0	1	Implemented
Fault Corrections	0	0	1	Implemented
Total	**0**	**7**	**6**	

ICT Strategy, Security, Operations and Business Continuity

There were seven amber-rated recommendations and ten green-rated recommendations. A formal follow-up review is yet to be undertaken, but management have given a verbal update on the position as at 30th June 2014.

Issue	Red	Amber	Green	Comment
ICT Strategy	0	1	0	August 2014
Responsibilities	0	0	1	Implemented
Configuration	0	2	1	January 2015
Logical Access	0	0	1	January 2015
Housekeeping	0	3	5	Implemented
Resilience	0	1	2	Implemented
Total	**0**	**7**	**10**	

Priority Risk Rating Key

= Green – Low risk and/or weaknesses already being addressed

= Amber – Medium risk requiring mitigation and prompt action.

= Red – High risk – urgent action required.

Schedule of Internal Audit Projects 2013/14

Full Reviews				Recommendations			
Project	**Planned Days**	**Planned Completion Date**	**Current Stage**	**Total Red**	**Total Amber**	**Total Green**	**Total**
Grants (Including Probity Checks) The purpose of this review was to examine the system for assessing applications, the approval of grants by the Grants Committee, payment of funds in accordance with agreements, and receipt of quarterly returns from organisations. The review also sought to establish whether recommendations made from the previous reviews had been implemented.	15	31st March 2014	Completed	0	0	1	1
Third Party Payments This review examined the process for making refunds to London Borough Councils and the City of London Corporation in respect of the annual contribution. It also assessed the robustness of payment processing in respect of other third party payments.	15	31st March 2014	Completed	0	0	0	0

Project	Planned Days	Planned Completion Date	Current Stage	Total Red	Total Amber	Total Green	Total
<u>Strategy, Security, Operations & Business Continuity</u> Standard BCMS review (includes organisational structure, polices, planning activities, responsibilities, procedures and resources).	15	31st March 2014	Completed	0	7	10	17
<u>Lorry Ban System</u> This review examined the software support for enforcement of the Lorry Ban Regulations.	15	31st March 2014	Completed	0	0	6	6
Spot Check Reviews							
Petty Cash, CDT, Safe & Inventory	1	31st March 2014	Completed	0	0	1	1
Follow-up Reviews		**Completed**	**RED**	**AMBER**	**GREEN**	**Implemented**	
Freedom Passes	1	January 2014	0	0	1	1	

Role of Internal Audit and Opinion on the Overall Internal Control Environment

Internal Audit plays a role in providing the required assurance on risk, governance and control through its comprehensive risk-based audit of all auditable areas within the five-year planning cycle. This is reinforced by consultation with the Audit Committee, the Director of Corporate Resources and his management team on perceived risk and any areas of concern and finally, by a rigorous follow-up audit regime.

The Audit Committee receives reports from the Head of Audit and Risk on the extent that London Councils can rely on its system of internal control and to provide reasonable assurance that the objectives of London Councils will be achieved efficiently. These reports are provided annually as well as a separate report in March detailing the planned work for the following year, the Five Year Strategic Plan and the scope of audit coverage across all aspects of London Councils' operations.

Each project in the Five Year Plan has been carefully considered, taking into account risk, significance, and the resources required to produce a professional product. The Five Year Plan represents a minimum level of cover, across London Councils' activities, ensuring each significant area of operational risk is examined at least once every five years and consideration is given to new risks emerging during each financial year.

The principles of risk management have been applied throughout the planning process in the allocation of resources to each audit and were carefully considered against the assessed likelihood, frequency and severity of potential loss resulting from realisation of individual risks.

London Councils' main accounting and payroll systems are provided by the City of London Corporation (CBIS and Trent). These systems are subject to annual review by the Internal Audit Section and are considered by both Internal Audit and the City's External Auditors to provide a high level of internal control.

It is the Head of Audit and Risk's opinion that the systems of internal control operated within London Councils are generally robust and can be reasonably relied upon to ensure that objectives are achieved efficiently. Overall, Internal Audit work shows that service managers generally take appropriate action to manage and mitigate risk. In giving this opinion it should be noted that assurance can never be absolute and, therefore, only reasonable assurance can be provided that there are no major weaknesses in these processes.

The system of internal audit provided to London Councils is considered to be working satisfactorily. This conclusion is based on the review undertaken against the Code of Conduct for Internal Audit in Local Government (the CIPFA Code), the CIPFA Statement on The Role of The Head of Internal Audit in Local Government, and Public Sector Internal Audit Standards (PSIAS). The work of Internal Audit is relied upon by London Councils' External Auditors (PriceWaterhouseCoopers).

Paul Nagle
Head of Internal Audit, CPFA
City of London Corporation
18th June 2014

ANNUAL GOVERNANCE STATEMENT

Scope of responsibility

London Councils (the Committee) is responsible for ensuring that its business is conducted in accordance with the law, that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Committee is also responsible for securing continuous improvement in the way its functions are exercised.

In discharging this overall responsibility, the Committee is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

London Councils has approved and adopted a code of corporate governance in the form of a framework, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of London Councils Corporate Governance Framework can be obtained from the Director of Corporate Governance at 59½ Southwark Street, London SE1 0AL. This statement explains how London Councils has applied this code and also meets the requirements of regulation 4(3) of the Accounts and Audit Regulations 2011.

The purpose of the governance framework

The governance framework comprises the systems, processes, culture and values by which the Committee is directed and controlled and such activities through which it accounts to, and engages with, its stakeholders. It enables the organisation to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risks of failure to achieve policies, aims and objectives and can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Committee's policies, aims and objectives, to evaluate the likelihood of those risks being realised, the impact should they be realised and to manage them efficiently, effectively and economically.

The governance framework has been in place at London Councils for the year ended 31 March 2014 and up to the date of approval of the statement of accounts.

The governance framework

The key elements of the Committee's governance framework include:

• **Identifying and communicating the Committee's vision of its purpose** – The Committee produces an annual Corporate Business Plan which sets out the organisation's priorities for the year. This is informed by on-going liaison with key borough stakeholders and specifically by a programme of meetings between the Chair and all Executive portfolio holders. The Corporate Business Plan is submitted to the Leaders' Committee. There are a number of ways in which the

Committee communicates with relevant stakeholders which include member briefings, committee and other meetings and events such as the London Councils' Summit.

- **Reviewing the Committee's vision** - The Committee produces an Annual Review at the end of each financial year. The review provides a summary of the key activities over the last year and highlights the key achievements.

- **Measuring the quality of services** - Data collected during the year feeds into the production of a key achievements report at the year end. London Councils Corporate Management Board (CMB), the London Councils Executive and the Grants and Transport and Environment Committees receive regular financial management reports that monitor actual income and expenditure trends against approved budgets. London Councils operates a complaints procedure which provides an opportunity to put things right if an error is made and assists in the search to improve the quality of services to member authorities and to Londoners. There are also a number of internal management mechanisms, such as 1:1 review meetings and a fully embedded performance appraisal framework which monitor on-going progress against objectives.

- **Defining and documenting roles and responsibilities –** The London Councils Agreement sets out the main functions and obligations of London Councils and its member authorities. The Agreement includes the standing orders and financial regulations which provide details of the delegation arrangements in place. There is a scheme of delegation in place which was last reviewed, updated and approved by the Leaders' Committee at its Annual General Meeting on 11 June 2013. There is an established protocol which provides guidance on the working relationships between elected members and officers. Additional information on the roles and responsibilities of London Councils Leaders' Committee, Executive, Grants Committee and Transport and Environment Committee are documented in their individual Terms of Reference. All London Councils officers are issued with a job description which confirms their duties within the organisation.

- **Developing, communicating and embedding codes of conduct** – All London Councils Staff have been made aware of the staff handbook which is located on the intranet site. The staff handbook sign posts staff to London Councils policies and procedures which are on the intranet. All staff are encouraged to refer to the intranet when they require guidance on London Councils policies and procedures. Reference to the staff handbook is also included in the induction training of all new staff joining London Councils with their attention specifically drawn to the financial regulations, the code of conduct, data protection and London Councils whistle blowing policy.

- **Reviewing the effectiveness of the Committee's decision-making framework -** The standing orders and financial regulations are included within the London Councils Agreement. The standing orders were last reviewed and the changes approved by Leaders' Committee on 19 October 2012. The financial regulations were reviewed and the changes approved by the Executive in February 2009. Minutes of Committee meetings are posted on London Councils website and provide an official record of decisions made.

- **Identifying and managing risks** - London Councils Risk Management Strategy and Framework was reviewed and updated in 2011/12 and approved by the Audit Committee in March 2012. London Councils Corporate Risk Register is primarily compiled from the Risk Registers for each of London Councils three Directorates. The Corporate Risk Register is reviewed in accordance with London Councils Risk Management Framework which includes an annual review by the Audit Committee and was last reviewed in September 2013. The Directorate Risk Registers are reviewed by the Audit Committee each financial year. London Councils' Corporate Management Board ensures that the risk registers, both Directorate and Corporate, continue to support London Councils' corporate priorities, which provides members with assurance on how the risks identified are being managed. An internal audit review of London Councils risk management arrangements was carried out during 2011/12. The review established that risk management is an embedded governance control and there were no recommended improvements to the arrangements.

- **Anti-fraud and anti-corruption arrangements** – London Councils is committed to having an effective Anti-Fraud and Anti-Corruption strategy designed to promote standards of honest and fair conduct, prevent fraud and corruption, detect and investigate fraud and corruption , prosecute offenders, recover losses and maintain strong systems of internal control. There are two separate policies in place London Councils Whistle Blowing Policy which was last updated in November 2013 and London Councils Policy to Combat Fraud, Bribery and Corruption, which was agreed by London Councils Audit Committee in March 2014 – both are available on London Councils' intranet and website.

- **Effective management of change and transformation** – London Councils has a framework for managing organisational change which is available to all staff on the intranet. The framework provides guidance on the statutory elements of managing change and issues that should be considered when implementing changes.

- **Financial management arrangements** – London Councils' financial management arrangements conform with the governance requirements of the CIPFA statement on the Role of the Chief Financial Officer in Local Government.

- **Assurance arrangements** – London Councils' internal audit function is carried out by the City of London's internal audit team under a service level agreement for financial support services. These arrangements conform with the governance requirements of the CIPFA statement on the Role of the Head of Internal Audit in public service organisations.

- **Discharge of the monitoring officer function –** The City of London's Comptroller & City Solicitors Department (Public and Corporate Law) undertakes the monitoring officer function under a service level agreement for legal services. London Councils' Director of Corporate Governance is charged with ensuring that any monitoring officer duty is commissioned from the City of London. As with all Committee officers, the Director of Corporate Governance is issued with a job description which confirms her duties within the organisation. She is subject to

London Councils appraisal arrangements which assess her performance against agreed objectives.

- **Discharge of the head of paid service function** – London Councils' Chief Executive is the head of paid service. As with all Committee officers, the Chief Executive is issued with a job description which confirms his duties within the organisation. He is subject to appraisal arrangements with Group Leaders who assess his performance against agreed objectives.

- **Audit Committee** – London Councils' Audit Committee has its own comprehensive Terms of Reference. The Terms of Reference were reviewed by the Audit Committee on 24 September 2010. The Audit Committee meets three times a year and is chaired by a leading member from a borough who can be a member of the Executive. The members of the Audit Committee will normally, but not necessarily, be members of London Councils Leaders' Committee and with the exception of its chair, are not members of the Executive.

- **Compliance with relevant laws and regulations** - London Councils has comprehensive financial regulations and a comprehensive set of human resources policies and procedures which are reviewed on a regular basis. These arrangements ensure compliance with all applicable statutes, regulations and other relevant statements of best practice in order to ensure that public funds are properly safeguarded and are used economically, efficiently and effectively and in accordance with the statutory and other authorities that govern their use.

- **Whistle-blowing** – London Councils has a whistle-blowing policy which is available to all staff on the intranet. The policy aims to encourage staff and others to feel confident in raising serious concerns by providing clear avenues through which those concerns can be raised and reassuring staff who raise concerns that they will not be victimised if they have a reasonable belief and the disclosure was made in good faith. It is also on the website and staff are encouraged to bring this policy and the policy to combat fraud, bribery and corruption to the attention of contractors and third parties.

- **Identifying the development needs of members and officers** – London Councils has access to a programme of training and development, which is available to all staff and can be found on the intranet. The aim of the programme is to assist in the achievement of the organisation's aims and objectives by providing opportunities for staff to gain the necessary skills and knowledge required to perform their tasks and duties effectively. London Councils also has a performance appraisal scheme which provides all staff with regular assessments of their performance and development needs in relation to their work objectives. Members have access to training in their own authorities. There is a member only section on London Councils' website which provides them with useful information, regular briefings in specific policy areas and a forum for information exchange.

- **Establishing clear channels of communication** – London Councils actively engages with relevant stakeholders when developing its vision and strategies. All Committee meetings are open to the public and consultations are undertaken

where relevant. London Councils issues member briefings and arranges a number of events, conferences and seminars that also provide opportunities for stakeholder engagement. London Councils produces an Annual Review which provides a summary of the key achievements over the last year and annual statutory financial statements. Information on consultations, minutes of committee meetings and publications are posted on London Councils website www.londoncouncils.gov.uk. London Councils consults with Chief Officer groupings across boroughs in the development of its work.

- **Enhancing the accountability for service delivery and effectiveness of public service providers** - All working arrangements with public service providers are subject to signed agreements/contracts which set out the terms of the service provided. All agreements/contracts are reviewed to ensure that the roles and responsibilities of the parties involved are clearly defined and the terms are beneficial to London Councils and its member authorities. Key performance indicators are incorporated into agreements where appropriate and monitored regularly. Nominated officers are responsible for managing the outcomes of the service and establishing clear lines of communication with providers.

- **Partnership arrangements** – London Councils has a set protocol for staff to follow when working in partnership with outside bodies. A checklist is to be completed for each new partnership or project. Partnership arrangements are also subject to signed agreements which include objectives, roles and responsibilities. The performance of partnerships are monitored in the same manner as other service providers. London Councils does not currently have any material partnership arrangements.

Review of effectiveness

London Councils has responsibility for conducting at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of London Councils Corporate Management Board which has responsibility for the development and maintenance of the governance environment, the internal audit annual report and also by comments made by the external auditors in their annual audit letter and other reports. The review of the effectiveness of the governance framework includes:

- The work of Internal Audit, undertaken by the City of London under a Service Level Agreement, and the annual opinion of the Head of Audit & Risk Management at the City of London. Internal Audit plays a central role in providing the required assurance on internal controls through its comprehensive risk-based audit of all auditable areas within a five-year planning cycle, – with key areas being reviewed annually. This is reinforced by consultation with London Councils Corporate Management Board and London Councils' Audit Committee on perceived risk and by a rigorous follow-up audit regime. The Internal Audit Section of the City of London operates, in all aspects, in accordance with the CIPFA Code of Practice. An internal audit review of governance arrangements was carried out during 2012/13 with the outcome reported to the Audit Committee in March 2013.

- The Audit Committee's review of the governance arrangements in place during 2013/14.

- London Councils Corporate Management Board considers an annual report on Corporate Governance, which includes work completed during the current year and highlights work planned for the following year.

Areas for development during 2014/15

The review of the effectiveness of London Councils governance arrangements has revealed the following areas for development during 2014/15:

Grants

An internal audit review of the Grants programme was undertaken in 2013/14. The audit reviewed the management controls which ensure that grants are issued in accordance with established priorities and the adequacy of due diligence checks, monitoring procedures and payment processes. The review also measured the extent to which the recommendations of the 2012 grant investigation had been implemented. The review established that *"there is a sound control environment with risks to system objectives being reasonably managed. Any deficiencies identified are not cause for major concern"*. There was one recommendation for the introduction of additional reference checks on organisations which have never been funded by London Councils or receive annual funding in excess of £1 million. The recommendation was implemented from April 2014.

ICT Strategy, Security & Operational Control

A review of the Committee's ICT strategy, security and operational control was undertaken during 2013/14. The review revealed that whilst an adequate control framework was in place, there were a number of areas that required addressing such as updating the overall ICT strategy and the business continuity and disaster recovery plans. There were also recommendations on improvements to system security, hardware infrastructure, performance monitoring and staff data security awareness. The report acknowledged that management was already taking action to address a number of the issues that were raised. The outstanding recommendations will be implemented during 2014/15.

Inventory

An internal audit spot check of petty cash, creditor payments, safe contents and inventory lists was carried out during 2013/14. The check included an examination of procedures over the petty cash imprest, safe access and security, inventory and a creditor depth test for a sample of transactions. The review revealed that the inventory list for furniture and equipment had not been updated on a regular basis. The recommendation included in the spot check report will be implemented during 2014/15.

London Lorry Controls Scheme

An internal audit review of the London Lorry Control IT System was undertaken in 2013/14. The audit reviewed controls in relation to system strategy, management responsibility, configuration, security, operational procedures and resilience. The review

provided assurance on the data integrity of the whole system. The recommendations included in the report relate to the incorporation of the debt registration functionality, performance monitoring reports, segregation of duties and system security protocols. A number of the recommendatins have already been implemented with the remainder being implemented during 2014/15.

Parking and Traffic

A follow up review of the Parking and Traffic Division was carried out during 2011/12. The original review examined the controls in place to ensure that all charges are accurately identified and recharged to the relevant organisation, that payments to the main contractor and Parking Adjudicators are accurate and reflect services provided and the adequacy of procedures and systems for monitoring performance. The follow up review revealed that some of the recommendations had not been implemented due to prohibitive implementation costs. There are still some improvements to be made on operational procedure notes which have been delayed as a result of a change in the business object software used to compile management information. These improvements will be implemented during 2014/15.

Taxicard Scheme

A follow up review of London Councils' Taxicard Scheme was completed in 2011/12. The original audit reviewed the management arrangements for the scheme as well as establishing and examining arrangements in place to monitor the contract held with Computer Cab. The follow up review revealed that there had been a delay in implementing a recommendation regarding the regular updating of procedure manuals. There has been progress made on the update of procedure manuals during 2013/14 but the exercise has not yet been completed as recent and proposed changes will have to be incorporated in the final version. These improvements will be completed during 2014/15.

London Councils will take adequate steps over the coming year to address the above matters in order to further enhance its governance arrangements. London Councils is satisfied that these steps will address the improvement needs identified in the effectiveness review. London Councils will monitor their implementation and operation as part of our next annual review.

Significant governance issues

There are no significant governance issues.

John O'Brien   September 2014
Chief Executive

Mayor Jules Pipe   September 2014
Chair of London Councils

Audit Committee

Internal Audit Reviews

Item no: 06

Report by:	David Sanni	**Job title:**	Head of Financial Accounting
Date:	15 July 2014		
Contact Officer:	David Sanni		
Telephone:	020 7934 9704	**Email:**	david.sanni@londoncouncils.gov.uk

Summary   This report provides the Audit Committee with an update of the internal audit reviews completed by the City of London's Internal Audit section since the last meeting held in March 2014.

Recommendations   The Audit Committee is asked:

- To consider and comment on the contents of the internal audit reports attached at Appendices A and B; and

- To note that there were no significant control weaknesses identified in the reviews completed during the period.

Introduction

1. At its meeting on 21 March 2013 the Audit Committee approved the internal audit plan for 2013/14 that was proposed by the City of London's Internal Audit section under the terms of the service level agreement for financial support services.

2. The reviews included in the 2013/14 programme were:

   ### Projects

   - Grants
   - Third Party Payments

   ### ICT Reviews

   - Strategy, Security, Operations and Business Continuity
   - London Lorry Control Scheme System

   ### Spot Check Reviews

   - Petty Cash, CDT, Safe and Inventory

   ### Follow-ups

   - Freedom Passes

3. The internal audit reviews included in this report are the Third Party Payments and the Petty Cash CDT, Safe and Inventory spot check. A follow up review for Freedom Passes was completed during the period which found that all the recommendations had been implemented.

Internal Audit Review

Third Party Payments

4. The audit reviewed controls in relation to the payment of the one-off refund from reserves and the distribution of funds from the Metropolitan Police Service's child safeguarding initiative to member boroughs. The review provided assurance that financial and operational controls are working effectively and there were no recommendations made. The report on the Third Party Payments review can be found at Appendix A.

Petty Cash, CDT, Safe and Inventory

5. The spot check included an examination of procedures over the petty cash imprest, safe access and security, inventory and a creditor depth test for a sample of transactions. The spot check revealed that whilst the majority of systems reviewed were operating satisfactorily, there were weaknesses in the maintenance of the inventory list. The report on the Petty Cash, CDT, Safe and Inventory spot check can be found at Appendix B.

Conclusion

6. The review of the internal audit reports has not revealed any significant control weaknesses. However, there has been an instance where official procedures had not been followed and existing controls could be improved. The implementation of the recommendation shall be monitored to ensure that it is completed within the agreed timescale.

Financial Implications for London Councils

None

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendices

Appendix A: Internal audit letter on Third Party Payments
Appendix B   Internal audit letter on Petty Cash, Safe, Creditors (CDT) and Inventory

Background Papers

Audit Committee report on Internal Audit Planned Work 2013/14 dated 21 March 2013
Internal Audit Working File 2013/14

Chris Bilsland CPFA
Chamberlain (Finance Director)

Mr John O'Brien
Chief Executive
London Councils

Telephone 020 7332 1277
Email paul.nagle
@cityoflondon.gov.uk

Our ref LC-TPP-2014/15

Date 27th June 2014

Dear John,

Third Party Payments

Introduction

In accordance with the agreed Internal Audit plan for 2013/14, a review of third party payments was recently conducted with the assistance of the Head of Financial Accounting. Owing to overlapping audit coverage with the majority of the original proposed scope for 'Partnerships and Third Party Payments', Internal Audit conducted a review of payments to London boroughs for the one-off refund from reserves and the Metropolitan Police Service's contribution to child safeguarding in 2013/14 with the agreement of the Director of Corporate Resources.

Summary

This review focussed on ensuring that the refunds supplied to each London borough were consistent and in accordance with the terms agreed by councillors, following the agreement to reduce London Councils' reserves. In addition, the distribution of funds for the Metropolitan Police Service (MPS) child safeguarding initiative across the boroughs was assessed. For both areas, Internal Audit considered promptness of payment, consistency and transparency of process.

No recommendations have been made as a result of this review.

Conclusions

Reserves

The level of surplus on which calculations for the refunds to London boroughs were based was verified by checking the relevant audited financial statements and Internal Audit obtained assurance that that officers have given due consideration to London Councils' financial and operational sustainability prior to revising the level of reserves held.

Refunds

The level of refunds which was proposed to committee based on the assessment of reserves held is transparently documented. It was also noted that there was due consultation with appropriate senior officer's and the approval process is well documented. The refunds were verified as being distributed to the London boroughs as proposed by officer's and agreed by councillors.

City of London Guildhall Yard East, Basinghall St, London EC2P 2EJ
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www.cityoflondon.gov.uk
www.cityoflondon.gov.uk/lordmayor

Appendix A: Internal audit letter on Third Party Payments   Audit Committee - 15 July 2014
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Procurement and accounts payable

Best practice for procurement was also assessed in order to gain assurance that adequate internal control was in operation for the approval of significant expenses. Business continuity arrangements are in place to ensure that payments are processed in the event that the officer responsible is absent. In lieu of electronic authorisation limits, London Councils maintains a list of 48 officers who have delegated authority to sign off expenditure. 10% sample testing indicated that sample signatures are held on file for the administrative assistant to check against prior to processing invoices.

The major percentage of expenditure is for contracts for Freedom Passes and Parking & Traffic. Hand written orders are raised for these payments, which is in keeping with all other London Councils' purchase arrangements.

Sample testing of 20 randomly selected invoices to third parties indicated that there is adequate separation of duties in effect for Accounts Payable, payment is processed within the statutory 30 days, expenditure is reasonable and coding to CBIS for the organisation's management accounts is accurate.

MPS Child Abuse Investigation Command

London Councils' financial involvement with the Metropolitan Police Service's safeguarding of children initiative was undertaken as agreed with the Force. The Police was charged the correct sum of £232,000 promptly, and the sums were distributed according to the agreement.

I should be grateful to receive your comments on the contents of this letter by **11th July**. I should also like to thank your staff for their co-operation. If you have any queries, please contact **Jeremy Mullins** at Jeremy.Mullins@cityoflondon.gov.uk.

Yours sincerely,

Paul Nagle

Paul Nagle
Head of Internal Audit and Risk Management

Copied to:
Frank Smith, Director of Corporate Resources
David Sanni, Head of Financial Accounting

Chamberlain's Department
Chris Bilsland CPFA
Chamberlain (Finance Director)

Mr Frank Smith
Director of Corporate Resources
London Councils
59 Southwark Street

Dear Frank

Spotcheck - London Councils Petty Cash, Safe, Creditors (CDT) and Inventory

Introduction

A spotcheck of the London Council's finance operations was recently conducted by my Auditor in accordance with the 2013/14 Internal Audit Plan. The check included an examination of procedures over the petty cash imprest, safe access and security, inventory and a creditor depth test for a sample of transactions.

Summary

For a sample of transactions reviewed, the majority of the systems reviewed were operating satisfactorily and in accordance with Financial Regulations. There are, however, weaknesses in the maintenance of inventories which needs to be reviewed. .

Conclusions

Petty Cash Imprest

Controls over the administration and management of the petty cash are operating satisfactorily and in accordance with Financial Regulations with a satisfactory level of division of duties.

Safe

Controls over security and access to the safe and petty cash float are satisfactory.

Creditor Depth Test

Controls over the checking, authorising and over the promptness of the payment of invoices are robust and in accordance with Financial Regulations**.**

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Appendix B: Internal Audit Letter on Petty Cast, etc.   Audit Committee - 15 July 2014
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Inventory

Controls over the maintenance and security of inventories are unsatisfactory and not in accordance with Financial Regulations. Inventories of furniture and equipment have not been reviewed since 2010.

A physical check of a sample of items to the furniture and equipment inventories categorised as 'Miscellaneous' identified that some electrical items on the inventory (fridge, microwave, dishwasher and a toaster) originally in the kitchen located on the ground floor were replaced and moved elsewhere. The replaced items, which were not on the inventory, were not asset tagged.

In addition, it was noted that two Konica Printers found on the same floor, which were not on the IT inventory, had been replacements for HP Laserjet printers found on the inventory. The location of the HP printers, however, could not be identified although it was understood from discussions with staff that they still exist within the building. It is understood that since IT support was transferred to the City of London's IS Department, an up-to-date record of all IT hardware has been maintained by the City Chamberlain's IS function. *It is advisable to obtain a copy of this record so that clarity can be obtained concerning which specific assets the City is supporting, and to raise any issues where equipment that should be maintained under the Service Level Agreement has not been included on the list.*

I have enclosed a schedule containing recommendations to address the weakness identified which includes a management action plan. I should like to thank you for your prompt response. I should also like to thank your staff for their co-operation. If you have any further queries, please contact Joseph Lee on the above number.

Yours sincerely

Paul Nagle

Paul Nagle
Head of Audit & Risk Management

cc: David Sanni, Head of Financial Accounting

SECTION C : ISSUE, RISK & RECOMMENDATION ACTION PLAN

Inventory

No.	Priority	Issue	Risk	Recommendation
1	🔺	The inventories of furniture and equipment as well as IT equipment have not been updated since 2010.	Items could be lost or stolen.	Inventories of furniture and equipment and IT equipment should be updated as a priority.
Management Response and Action Plan Recommendation Agreed * There were no significant acquisitions of furniture and equipment between 2010 and the extensive refurbishment of the Southwark Street office in 2012. There have been significant changes to personnel within the Corporate Resources section since the completion of the refurbishment project which along with the impact of other competing priorities, such as IT upgrades, has meant that the inventories register has not been maintained. However, London Councils IT support is provided by the City of London under a service level agreement since August 2011. The City's IT team keeps a record of all IT equipment that it supports. A new register will be set up to record all furniture and equipment held by London Councils. Responsibility: Roy Stanley, ICT & Facilities Manager Target Implementation Date: October 2014			

* Where recommendation not accepted indicate alternative action that will be taken to mitigate risk or reasoning for accepting risk exposure to be provided

Priority Risk Rating Key

✅ = Green – Low risk and/or weaknesses already being addressed

🔺 = Amber – Medium risk requiring mitigation and prompt action.

🔴 = Red   – High risk – urgent action required.

1

Appendix B: Internal Audit Letter on Petty Cast, etc.   Audit Committee - 15 July 2014
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Audit Committee

Internal Audit Charter

Item no: 07

Report by:	David Sanni	**Job title:**	Head of Financial Accounting
Date:	15 July 2014		
Contact Officer:	David Sanni		
Telephone:	020 7934 9704	**Email:**	david.sanni@londoncouncils.gov.uk

Summary	The new Public Sector Internal Audit Standards (PSIAS) requires local government bodies to define the purpose, authority and responsibility of the internal audit activity in an internal audit charter. London Councils has to adopt the PSIAS and establish a charter in order to comply with the Accounts and Audit Regulations.

Recommendations	The Audit Committee is asked to approve the draft Internal Audit Charter which can be found at Appendix A.

Background

The Public Sector Internal Audit Standards (PSIAS) have been developed by a number of bodies which include the Institute of Internal Auditors (IIA) and the Chartered Institute of Public Finance and Accountancy (CIPFA). The standards, which came into effect on 1 April 2013, have been developed to create consistency in the practice of internal audit across the public sector and establish the basis for quality assurance. As a Local Authority Joint Committee, London Councils' internal audit function has to adopt the standards in order to comply with the requirements of the Accounts and Audit Regulations.

The PSIAS require authorities to define the purpose, authority and responsibility of the internal audit activity in an internal audit charter. The PSIAS require an internal audit charter to:

- establish the internal audit function's position within the organisation, including the nature of the Chief Audit Executive's (CAE) functional reporting relationship with the Audit Committee;

- authorise access to records, personnel and physical properties relevant to the performance of engagements;

- define the scope of internal audit activities;

- cover the arrangements for appropriate resourcing;

- define the role of internal audit in any fraud related work; and

- include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activity.

As London Councils internal audit function is delivered as part of the service level agreement for financial support services between London Councils and the City of London, the City's Head of Audit and Risk Management fulfils the role of CAE for the purposes of the PSIAS.

The Head of Audit and Risk Management must periodically review the internal audit charter and present it to the Corporate Management Board and Audit Committee for approval.

The draft charter has been prepared in consultation with the City of London's Head of Audit and Risk Management.

The draft charter was approved by the Corporate Management Board on 25 June 2014.

The Audit Committee is asked to approve the draft Internal Audit Charter which can be found at Appendix A.

Financial Implications for London Councils

The cost of the internal audit work provided by the City of London is included within the annual cost of the service level agreement between London Councils and the City for financial and payroll services, which for 2014/15, is estimated at £92,000.

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendices

Appendix A – London Councils Draft Internal

Background Papers

Internal audit work file

LONDON COUNCILS

Internal Audit Charter

Definition of Internal Audit

The Public Sector Internal Audit Standards (PSIAS) definition of internal auditing has been adopted by London Councils as follows:

"Internal auditing is an independent, objective assurance and consulting (advisory) activity designed to add value and improve an organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

Internal Audit Standards

The Public Sector Internal Audit Standards (PSIAS) have been developed by a number of bodies which include the Institute of Internal Auditors (IIA) and the Chartered Institute of Public Finance and Accountancy (CIPFA). The standards, which came into effect on 1 April 2013, have been developed to create consistency in the practice of internal audit across the public sector and establish the basis for quality assurance.

The objectives of the standards are to:

- define the nature of internal auditing within the UK public sector;

- set basic principles for carrying out internal audit in the UK public sector;

- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and

- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

The standards comprise of the definition of internal audit, the Code of Ethics, attribute standards and performance standards. As a Local Authority Joint Committee, London Councils' internal audit function has to adopt the standards in order to comply with the requirements of the Accounts and Audit Regulations

Purpose

The purpose of the internal audit function is to examine London Councils' activities through independent and objective reviews of operations, financial systems and internal controls, assessing the reliability and integrity of information, compliance with policy and regulations and the processes for the safeguarding of assets. Furthermore, it seeks to add value and improve London Councils' operations by promoting a robust control environment as well as making recommendations for improvements in operating efficiencies.

Authority

The Accounts and Audit Regulations (2011) require London Councils to *"undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control"*.

The regulations establish the internal audit function's right of access to all London Councils' records, documents, information and explanations that it considers necessary to fulfil its responsibilities.

Section 151 of the Local Government Act 1972 states that every authority should *"make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs"*. CIPFA has defined *"proper administration"* in that it should include "compliance with the statutory requirements for accounting and internal audit".

The CIPFA statement on the *Role of the Chief Financial Officer in Local Government* states that the Chief Financial Officer (CFO) must:

- ensure an effective internal audit function is resourced and maintained;

- ensure that the authority has put in place effective arrangements for internal audit of the control environment;

- support the authority's internal audit arrangements; and

- ensure that the Audit Committee receives the necessary advice and information, so that both functions can operate effectively.

Responsibility

London Councils internal audit function is delivered as part of a wider Service Level Agreement (SLA) between London Councils and the City of London for the provision of a range of finance related services. The internal audit section is led by the City of London's Head of Audit and Risk Management.

In order to accomplish its objectives, the internal audit section will deliver a programme of audit that utilises a combination of rotation and risk analysis to review all key areas of London Councils' operations. The section's work ethic combines open communication, professionalism, expertise, objectivity, integrity and trust.

In fulfilment of this, the internal audit section will:

- Engage with all key stakeholders (the Audit Committee, the Corporate Management Board and the external auditor) to ensure that the internal audit service remains customer-focussed and supports the business goals of London Councils;

- Conduct a comprehensive, risk-based, audit planning process to ensure that the key areas of London Councils operations, including ICT, are provided with an appropriate

and structured internal audit service to assist in the continuous improvement process;

- Present an annual audit plan and five year strategic audit programme to the Audit Committee and Corporate Management Board for approval;

- Review systems, controls and procedures and, where necessary, make recommendations to ensure that these are both efficient and effective and to monitor the use of resources in pursuit of the defined objectives of the organisation;

- Perform a key role in the prevention of fraud, bribery and corruption by the independent and systematic examination of systems and procedures, geared to maintaining strong systems of internal control;

- Provide support and advice on investigations into suspected or detected cases of fraud or corruption in accordance with London Councils' *Policy to Combat Fraud Bribery and Corruption*;

- Act as an alternative contact point for any concerns raised under London Councils' *Whistleblowing* policy;

- Provide an advisory service to London Councils with regard to best practice, financial and internal control procedures and risk management;

- Liaise with London Councils' external auditors and other review agencies in order to maximise the total audit and scrutiny coverage provided to London Councils;

- Account in detail to the Audit Committee for the activities of the Internal Audit Section.

- Provide a Head of Audit annual opinion on the internal control environment to the Director of Corporate Resources (Chief Financial Officer), Chief Executive and Audit Committee. This opinion is an intrinsic part of the evidence for the Annual Governance Statement;

- Report the findings of reviews of IT general controls undertaken at the City of London where these are relevant to London Councils on agreement of audit reports;

- Evaluate specific operations or undertake consultancy and advisory services at the request of the Audit Committee or Corporate Management Board as appropriate; and

- Provide a mechanism for receiving feedback on the quality of the service from users.

Reporting

The annual internal audit plan and five year strategic programme are presented to the Audit Committee and Corporate Management Board for approval.

A written report will be prepared and issued by the Head of Audit and Risk Management following the conclusion of each internal audit assignment. The internal audit reports will

include management's responses to the specific findings and recommendations. The reports will be presented to the Audit Committee, the Director of Corporate Resources and the relevant member of the Corporate Management Board.

The internal audit section will carry out follow-up reviews on the implementation of the recommendations which the Head of Audit and Risk Management will also report to the Audit Committee and relevant member of the Corporate Management Board.

As mentioned above, the Head of Audit and Risk Management provides an annual audit opinion on the adequacy and effectiveness of London Councils internal control environment which is presented to the Audit Committee.

The Head of Audit and Risk Management will report on conformance with the PSIAS in his annual report.

Independence

The Head of Audit and Risk Management has unrestricted access to the Chair of the Audit Committee and the Corporate Management Board:

The Head of Audit and Risk Management is not an employee of London Councils and does not perform any other function at London Councils apart from those detailed above.

The Head of Audit and Risk Management will assess all requests to carry out ad-hoc consultancy or advisory work in order to avoid conflicts of interest or threats to his independence.

Organisational Arrangements

The Audit Committee fulfils the function of the "Board" referred to in the PSIAS with the following exceptions:

- approving the internal audit budget which is incorporated in the SLA for financial support services approved by London Councils' Leaders' Committee;

- approving decisions regarding the appointment and removal of the Head of Audit and Risk Management; and

- approving the remuneration of the Head of Audit and Risk Management

The Corporate Management Board fulfils the role of "Senior Management" referred to in the PSIAS.