

Audit Committee

22 March 2018: 10:30am

London Councils offices are wheelchair accessible

Location: Meeting Room 1, London Councils, 59½ Southwark Street, London SE1 0AL

Contact Officer: Alan Edwards

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Agenda items

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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

21 September 2017

Cllr Roger Ramsey was in the Chair

Members Present:

Cllr Roger Ramsey (LB Havering)
Cllr Stephen Alambritis (LB Merton)
Cllr Fiona Colley (LB Southwark)
Cllr Mukesh Malhotra (LB Hounslow)

In Attendance:

Jerry Mullins, Audit Manager, City of London
Martha Franco-Murillo, Senior Auditor, City of London
Neil Hewitson, Director, KPMG LLP
Stephen Lucas, Senior Manager, KPMG LLP

London Councils' officers were in attendance.

Introductions were made around the table for the benefit of any new members of London Councils' Audit Committee.

1. Apologies for Absence

An apology for absence was received from Councillor Simon Wales (LB Sutton).

2. Declarations of Interest

Councillor Alambritis declared an interest in being on the London Pensions Fund Authority (LPFA) Board.

3. Minutes of the Audit Committee meeting held on 22 June 2017

The minutes of the Audit Committee meeting held on 22 June 2017 were agreed as being an accurate record.

4. Draft Annual Audit Report 2016/17

The Audit Committee received a report that presented the annual audit report to those charged with governance (ISA260) prepared by KPMG, London Councils' external auditor, in respect of the 2016/17 financial year.

David Sanni, Head of Financial Accounting, London Councils, introduced the report. He informed members that the draft Management Letter at Appendix B (page 25) was a standard letter which would be signed by Frank Smith, Director of Corporate Resources, once it was approved. There was a letter to go with each set of accounts.

Neil Hewitson, Director, KPMG LLP, said that KPMG issued an unqualified opinion on each set of accounts. With regards to key audit risks (page 8), he said that the review of the risks across all three committee accounts did not reveal any issues. The judgements made in the financial statements (accruals and pensions liability, page 10) represented a balanced view and were within the acceptable range. The recommendations (page 12) from the previous year had both been implemented and there were no new recommendations in 2016/17.

Councillor Malhotra asked if London Councils' disaster recovery and Business Continuity Plan (BCP) had been reviewed during the course of the audit. Neil Hewitson said that the review of business continuity arrangements fell outside of KPMG's remit. The Chair confirmed that business continuity had been discussed at the previous Audit Committee meeting. Frank Smith said that the BCP had been reviewed a year ago. The BCP and cascade process was invoked by London Councils following the terrible events that occurred on Saturday, 3 June 2017 at London Bridge. The cascade process was initiated on the following day via telephone, text messaging and email informing staff that the London Councils' building at Southwark Street was open for business as usual. Frank Smith confirmed that 92% of London Councils' staff had received the message. The Chair said that details of this could be found on page 3 (2nd para) of the minutes from the last meeting.

Councillor Malhotra asked if he could have further details with regards to the pensions liability (£29.99mm) in the Financial Statements on page 10 (page 16 handwritten) of the report. Stephen Lucas, Senior Manager, KPMG LLP, said that KPMG used actuarial experts to ascertain whether the assumptions used by London Councils' actuary were within an acceptable range. Frank Smith said that the pension scheme funding level had increased from 96% as at 31 March 2016 to the current position of 104%, making it currently fully funded. Councillor Malhotra asked whether this was under the London Pensions Fund Authority (LPFA). Frank Smith confirmed that it was; London Councils having attained Admitted Body status back in 2000. The Chair said that details of this were set out in the Statement of Accounts.

Councillor Colley noted that the pensions deficit was growing and she asked what benchmarks KPMG were using for comparison. Stephen Lucas said that actuarial experts looked at a range of assumptions used by a number of actuaries in order to determine an acceptable range. KPMG would investigate any assumptions that fell outside the acceptable ranges. Neil Hewitson confirmed that the assumptions used in London Councils' accounts were within the acceptable range.

The Audit Committee:

- Noted the contents of the annual audit report included at Appendix A; and
- Approved the draft letter of representation included at Appendix B.

5. Financial Accounts 2016/17

The Audit Committee received a report that presented the audited statement of accounts for 2016/17, for approval. The accounts to be approved comprised of London Councils' Consolidated Statement of Accounts for 2016/17, London Councils' Transport and Environment Committee Statement of Accounts for 2016/17 and London Councils' Grants Committee Statement of Accounts for 2016/17

David Sanni introduced the report and informed members that there was an audited surplus for 2016/17 of £1.764 million for the provisional consolidated accounts. He said that Table 3 (page 34) showed the adjusted position for the 2016/17 statutory accounts, incorporating actuarial losses on pension assets/liabilities. David Sanni informed members that Table 5 (page 36) showed the audited position on usable reserves as at 31 March 2017 - £12.510 million over the three funding streams.

Councillor Colley asked what was planned and unplanned with regards to the use of reserves. David Sanni said that transfers from usable reserves were used for balancing the budget and were approved by members during the annual budget setting process each December. The transfers from unusable reserves are not included in the budget but are derived from accounting adjustments resulting from the movements on the Pension Reserve and Accumulated Absence Liability.

Councillor Colley asked if there were any concerns regarding figures in the “analysis of revenue account surplus” in Table 4 (page 35). Frank Smith said this was reported to Committee on a quarterly basis. He said that TEC surpluses and overspends were harder to assess as they related to trading services, such as concessionary fares and parking services and were demand led by service users. Grants included an underspend on the current European Social Fund (ESF) matched funded programme. On the Joint Committee, there was a surplus on central recharges and an underspend on research and commissioning, which was expected and reported to the Executive during the course of the year. Frank Smith said that the ESF budget would catch-up this year. The Chair said that the budget was agreed by London Councils’ Leaders Committee and the outturn reported to the Executive before it was presented to Audit Committee. Councillor Colley asked if there were any risks going forward. She said that she was unable to find the funding ratio of the pension scheme in the accounts. It was agreed that the funding ratio would be included in future accounts.

Councillor Malhotra asked if London Councils had any contingency plans in place for not receiving the £940,000 co-financing contribution from the ESF after Brexit (page 71, para 29, Consolidated Statement of Accounts). Frank Smith confirmed that the ESF programme was scheduled to end before Brexit. He said that the ESF grant would continue until the programme ended. The programme had now slipped until December 2018 and a further extension had now been sought to mid-2019. The Chair asked when the current S.48 Grants programme ended. Frank Smith confirmed that the current Grants programme ran up to March 2021.

The Audit Committee:

- Approved the statement of accounts, as detailed at Appendices A to C of the report; and
- Agreed that the funding ratio would be included in future financial accounts.

6. London Councils’ Corporate Risk Register

The Audit Committee received a report on the Corporate Risk Register that was presented to the Audit Committee on an annual basis

Christiane Jenkins, Director of Corporate Governance, London Councils, introduced the report. She informed members that the Corporate Risk Register was presented to the Audit Committee every September. It was reviewed quarterly by the Corporate Governance Group and twice a year by the Corporate Management Board (CMB). Christiane Jenkins informed members that there had been no changes to the register from the previous year, with the exception of Corporate Risks 7, 8 and 9 where the appropriate London Councils’ responsible officer(s) had changed as a result of the previous officer responsible, Nick Lester-Davis, leaving the organisation.

Councillor Colley asked whether the loss of borough support varied over time (Corporate Risk 1, page 44). John O’Brien said no authority were currently in a period of notice in respect of leaving London Councils, but the Register rating took account of the potential for this position to change, particularly in periods of heightened sensitivity.

Councillor Malhotra asked what progress London Councils was making with regards to complying with the new General Data Protection Regulation (GDPR) framework being enacted on 25 May 2018. He said that plans for the regulators needed to be in place by January 2018. Frank Smith said that London Councils had an experienced officer, Emily Salinger, carrying out this work. He informed members that there were two main risks for London Councils, namely (a) consent, and (b) contractual (London Councils was responsible for third party contracts and clauses needed to be put in to clarify responsibilities of contractors with regards to the new regulations). With regards to the Taxicard Scheme, Frank Smith said that all 65,000 members would potentially need to be written to in order to gain their consent for use and retention of their personal data. He reassured the Committee that work was in hand and that London Councils already had a GDPR project plan. Frank Smith said that regular meetings were also taking place with Christiane Jenkins, Emily Salinger and himself and any potential risks would be identified by the end of the year. Councillor

Malhotra asked if progress for implementing the GDPR could be a standard item on the Audit Committee agenda going forward.

Neil Hewitson said that there was a great deal of work that needed to be carried out across the Local Government sector before the new GDPR was implemented in May 2018. Christiane Jenkins said that an internal audit on information governance had taken place at London Councils. She confirmed that 119 staff (out of 120 staff) had undertaken mandatory classroom based training and that London Councils had also signed up to an online training module which was mandatory for all staff ("Bob's Business eLearning"). An asset register was also being put together and this work was being made a priority.

Frank Smith informed members that London Councils had three main contracts where personal data was used, namely (a) Parking Managed Services, (b) Taxicard contract, and (c) the administration of the Freedom Pass (outsourced to call centres). London Councils had been in contact with all three of these contractors. Frank Smith said that the Grants programme also contained a large amount of personal data and robust controls needed to be in place to manage this information, particularly in respect of the ESF programme.

Councillor Malhotra asked what was being carried out to ensure that London Councils would be GDPR compliant with regards to its payroll and pensions. Frank Smith said that the LPFA, which manages London Councils pension, was currently taking measures at the moment. He said that the City of London undertook the payroll functions on behalf of London Councils, via an SLA. Jerry Mullins, Audit Manager, City of London, said that work on this was ongoing and was in the internal audit plan for the City. He said that payroll, including the employee pension deductions were being looked at on a regular basis.

Councillor Malhotra asked what London Councils' plans were to bolster IT transitional issues, in light of the recent breaches in cyber security. Frank Smith said that the City of London provided the IT for London Councils, through Agilisys, and regular meetings took place with them. He confirmed that London Councils had not suffered from any threats during these recent breaches in IT security. London Councils' IT strategy was approved by CMB, and London Councils operated some of its services in the Cloud.

Councillor Malhotra asked whether any reviews had taken place to ensure that the London Councils' building was fit for purpose. Frank Smith said that there was currently a ten year lease on the premises which expired in 2021. He confirmed that the building was fit for the services that London Councils provided at the moment. Frank Smith said that London Councils was responsible for the repairs and maintenance of the building and employed various contractors to deal with any issues that arose. John O'Brien, Chief Executive, London Councils, said that the building was in a good location for members, although it had certain limitations with regards to meeting rooms/layout.

The Audit Committee:

- Agreed that progress on implementing the General Data Protection Regulation (GDPR) would be a standard item on future Audit Committee agendas; and
- Noted the London Councils Corporate Risk Register for 2017/18, which was attached at Appendix 2 of the report.

7. Internal Audit Reviews Update

The Audit Committee received a report that provided members with an update of internal audit work that had been undertaken since the last meeting held in June 2017.

David Sanni introduced the report, which was a regular item on the agenda and provided an update from the last Audit Committee meeting held on 22 June 2017. The Recruitment and Payroll Administration audit had been completed and could be found at Appendix A of the report. David

Sanni informed Committee that Recommendation 1, regarding the “use of payroll exception reports” to help identify payroll errors, had been rejected by Management on the account that London Councils was a relatively small organisation that only employs 120 staff. It was deemed that obtaining such reports would outweigh any available benefits. Also, checks could be carried out using the existing software packages.

Jerry Mullins said that the 2016/17 the draft report on information management and security had been issued and was the final review included in the 2016/17 audit plan. He said that work on this year’s audit plan had now started. The Chair said that work on a number of reviews in the 2017/18 audit plan had been slower than anticipated (Appendix B, page 63). Jerry Mullins said that there was an issue of finding the right time to carry out an audit review (eg around IT work). However, he reassured members that all work would be completed by the 31 March 2018 and nothing would be carried over to the following year.

The Audit Committee:

- Noted and commented on the internal audit report on Recruitment and Payroll Adjustments attached at Appendix A of the report;
- Noted the Internal Audit Progress Report for 2017/18 attached at Appendix B of the report; and
- Noted that there were no significant control weaknesses identified in the reviews completed during the period.

8. Dates of Audit Committee Meetings for 2018/19

The Audit Committee received a report that notified members of the proposed Audit Committee meeting dates for 2018/19.

Councillor Malhotra said that the next meeting of the Audit Committee was not until March 2018 and that it would be beneficial if the Committee could receive updates on the GDPR prior to this meeting. The Chair said that it was probably more appropriate if a report went to the London Councils’ Executive meeting which next met on 16 January 2018, and, subject to the agreement of the Chair of London Councils, an update on GDPR could go to the Executive and then be shared with the respective Audit Committee members.

The Audit Committee agreed the meeting dates for 2018/19.

The meeting finished at 11:25am

Action Points

	Action	Progress
<i>Item 5. Financial Accounts 2016/17</i>	<i>Agreed to include funding ratio in future financial accounts</i>	Ongoing
<i>Item 6. Risk Management Corporate Risk Register</i>	<i>Agreed that progress on implementing the GDPR would be a standard item on The Audit Committee agenda</i>	On AC agenda for 22 March 2018
<i>Item 8. Dates of Audit Committee</i>	<i>Agreed that an update on GDPR would, subject to the Chair’s approval, go to the London Councils’ Executive Committee and then onto the Audit Committee</i>	

Audit Committee

Internal Audit Plan 2018/19

Item no: 04

Report by: David Sanni **Job title:** Head of Financial Accounting
Date: 22 March 2018
Contact Officer: David Sanni
Telephone: 020 7934 9704 **Email:** david.sanni@londoncouncils.gov.uk

Summary

This report informs the Audit Committee of the draft internal audit plan for 2018/19, as proposed by the City of London's Internal Audit section under terms of the service level agreement for financial and payroll services. The report also provides details of the proposed rolling five-year programme covering the period up to 2022/23. Officers from the internal audit section will attend the meeting to answer any questions members may have on the plan.

Recommendations

The Audit Committee is asked:

- To approve the internal audit programme for 2018/19 and the rolling five-year programme, as proposed by the City of London and detailed in Appendix A of this report.
-

Introduction

1. The London Councils' Audit Committee has received an internal audit plan proposed for London Councils by the City of London. This is a rolling five-year programme, which is updated each year.
2. During the planning process, the internal audit section invited London Councils' Corporate Management Board to recommend any areas for inclusion in the plan. The internal audit section considered the planned work of London Councils' external auditor to ensure that there were no areas of duplication. The internal audit section has also considered London Councils' corporate and divisional risk registers to assist in identifying areas which have been classified as exposing London Councils to a high level of risk.

Internal Audit Plan 2018/19

3. The proposed internal audit plan for 2018/19 is included at Appendix A of this report. The reviews proposed for 2018/19 are:
 - PAN London Mobility Schemes
 - Business Continuity Arrangements
 - ICT Information Governance including GDPR
4. The internal audit section will also carry out follow up reviews to assess the implementation of recommendations arising from the previous year's reviews. The Audit Committee is asked to approve the plan for 2018/19.

Rolling Internal Audit Plan 2018/19 to 2022/23

5. The Audit Committee is also asked to approve the rolling five-year internal audit programme for the period 2018/19 to 2022/23 as detailed in Appendix A. This rolling plan will be reviewed annually when firm proposals are made for the audit plan for the next financial year.
6. 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. In addition to the internal audit function, the service level agreement also covers the provision of an accounting and business system, the issue of

invoices and payments, VAT accounting, treasury management, cashiers, cheque handling, and payroll services. The estimated cost of the service level agreement for 2018/19 is £98,000.

Financial Implications for London Councils

Included in the body of the report.

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendices

Appendix A London Councils Proposed Internal Audit Plan for 2018/19 and five year rolling plan from 2018/19 to 2022/23.

Background Papers

Internal Audit workfile 2018/19

Provision of Internal Audit to London Councils

Internal Audit Work Plan for 2018-19

We have set out below the proposed internal audit coverage for the year 2018-2019. The detailed scope of each of the reviews will be discussed and agreed with management when commencing the work.

We plan to undertake a mid-year review of the annual plan to ensure that coverage to be provided is still appropriate and adequate. This plan will take into account any organisational changes and changes in risk profile.

Audit Project	Date of Last Review	Quarter	Audit Days
<u>PAN London Mobility Schemes</u> To determine the effectiveness of controls exercised over the management of the taxi card and the freedom passes schemes. <ul style="list-style-type: none"> • Freedom passes to focus on contract management, eligibility checks and record keeping. • Taxi card scheme to focus on internal controls: eligibility, record keeping and issue of taxi cards. 	December 2013	1	15
<u>Business Continuity Arrangements</u> To evaluate the adequacy of the business continuity arrangements in place, ensuring that the plan is updated on a regular basis, tested for effectiveness, disseminated to staff, and that staff are provided with adequate and appropriate training.	December 2015	2	10
<u>ICT Information Governance Including GDPR</u> An audit to determine the transparency and effectiveness of the information governance framework and channels used to manage information, focussing on compliance with GDPR requirements.	New	2	15
<u>Follow-up Exercise</u> An annual exercise to establish the implementation of previous year's audit recommendations.	April 2017	3	2
<u>Contingency</u> Use of time allocated will be determined as issues emerge.	N/A	4	3
TOTAL DAYS			45

Appendix A



Five Year Internal Audit Plan

The five year plan sets out proposed areas of future coverage based on our current assessment. It is reviewed annually to reflect any organisational changes and priorities.

AUDIT	DATE OF LAST AUDIT	YEAR 2 2018-19	YEAR 3 2019-20	YEAR 4 2020-21	YEAR 5 2021-22	YEAR 1 2022-23	COVERAGE IN FIVE YEARS
London Councils							
Full Assurance Reviews							
PAN LONDON MOBILITY SCHEMES	2013.12	15	0	15	0	0	30
FINANCIAL CONTROLS (INCL. BUD.MANAGENT,GIFTS, HOSPITALITY & INCOME)	2017.02	0	5	0	5	0	10
FINANCIAL CONTROLS (INCL. PETTY CASH, INVENTORIES, PCARDS, SAFEKEEPING)	NEW APPROACH	0	0	5	0	5	10
GRANTS (INCLUDING PROBITY CHECKS)	2016.09	0	20	0	20	20	60
PARKING & TRAFFIC CONTRACTS	2015.06	0	0	0	0	15	15
PROCUREMENT OF GOODS AND SERVICES	2016.07	0	15	0	10	0	25
BUSINESS CONTINUITY ARRANGEMENTS	2015.12	10	0	15	0	0	25
Full Assurance Reviews ICT Reviews							0
ICT REMOTE ACCESS AND MOBILE DEVICES	NEW	0	5	0	0	5	10
ICT INFORMATION GOVERNANCE INCLUDING GDPR	NEW	15	0	5	0	0	20
ICT DATA AND INFORMATION SECURITY	2017.03	0	0	0	10	0	10
MINI ASSURANCE REVIEWS							0
RECRUITMENT & PAYROLL ADJUSTMENTS	2016	0	0	0	0	0	0
GOVERNANCE ARRANGEMENTS		0	0	5	0	0	5
CONTINGENCY		3				0	3
FOLLOW-UP EXERCISE		2	5	5	5	5	22
PENSIONS SCHEME ADMINISTRATION	NEW		5				5
TOTAL		45	55	50	50	50	250

Audit Committee

External Audit Plan 2017/18

Item no: 05

Report by: David Sanni **Job title:** Head of Financial Accounting
Date: 22 March 2018
Contact Officer: David Sanni
Telephone: 020 7934 9704 **Email:** david.sanni@londoncouncils.gov.uk

Summary

This report presents the draft external audit plan for 2017/18 prepared by London Councils' external auditor, KPMG. The draft audit plan informs the Audit Committee of the scope of the external audit for London Councils for 2017/18. Neil Hewitson and Stephen Lucas from KPMG will attend the meeting to present the plan and answer any questions the Audit Committee may have.

Recommendations

The Audit Committee is asked:

- To approve the draft external audit plan for 2017/18 as detailed in Appendix A.
-

Audit Plan 2017/18

Introduction

1. This report informs members of the proposed audit plan for the 2017/18 financial year, which is attached at Appendix A to this report. The purpose of the plan is to inform both the officers and the members of London Councils of the strategy for the external audit of the 2017/18 financial accounts.
2. The provisions of the Local Audit and Accountability Act 2014 which replaced the Audit Commission Act 1998 do not require joint committees, such as London Councils, to produce audited accounts. However, London Councils has other legal obligations that require it to produce audited accounts outside of those derived from the Audit Commission Act. KPMG was appointed as London Councils' external auditor by the Leaders' Committee in December 2015 following a procurement exercise and recommendation from this Committee. The external audit appointment includes the audit of the 2017/18 accounts.

Scope of the Audit

3. The audit plan provides details of the approach KPMG intends to adopt in order to express an opinion on whether or not the financial statements represent a true and fair view of London Councils affairs for the year ended 31 March 2018. The audit will be conducted in accordance with the International Standards on Auditing (UK and Ireland).

Annual Governance Statement

4. The financial accounts include an Annual Governance Statement (AGS) which is prepared in accordance with the CIPFA/SOLACE Framework - *Delivering Good Governance in Local Government*. The framework requires authorities to review their governance arrangements at least annually to ensure continuing compliance with best practice. The audit will include a review of the AGS to consider the completeness of disclosures included in the statement. Along with the Chief Executive, those charged with governance will have to take ownership of this process and responsibility for the governance arrangements. As external auditor, KPMG will need assurance that members are fully engaged in this process and with the governance of the organisation in general. This includes:
 - The process defined for the review of the effectiveness of internal control and the involvement of appropriate members and officers;

- The arrangements for committee meetings at which corporate governance, internal control and risk management matters are considered; and
 - The expectation of a formal annual report to those charged with governance by the Head of Audit and Risk Management at the City of London, which includes an opinion on the overall adequacy and effectiveness of the organisation's internal control environment;
5. In practical terms this means that London Councils Audit Committee will be required to be actively engaged in the assessment of corporate governance and internal controls within London Councils. The annual review of the governance arrangements will be carried out at the end of the 2017/18 financial year and the outcome and revised AGS for 2017/18 will be presented to the Audit Committee for review and approval at their meeting in June 2018.

Significant Audit Risks

6. KPMG has carried out a risk assessment of London Councils operations and identified potential audit risks that need to be addressed during the course of its audit. The results of its risk assessment and its planned audit approach are detailed on pages 4 to 5 of the audit plan. In summary, the main risks identified are as follows:
- Management override of controls;
 - Fraudulent revenue recognition; and
 - Pension liability.

Materiality Levels

7. The materiality levels for the audit are set out on page 6 of the plan. The materiality levels set for the consolidated accounts are as follows:
- Planning materiality: £1.3 million;
 - Performance materiality: £975,000; and
 - Trivial reporting materiality: £65,000.

The materiality levels for the individual entities can also be found on page 6 of the plan.

Audit Fees

8. The audit fee is detailed on page 7 of the plan. A comparison of the proposed fees for 2017/18 with previous years are detailed in the table below:

	2017/18 (£)	2016/17 (£)	2015/16 (£)
Audit fee (including the limited company and AR27 certification)	36,000	36,000	36,000

9. The proposed fees can be met from within approved revenue resources.

Audit Report

10. Following the conclusion of the final audit, KPMG will issue an ISA(UK&I) 260 Report to those Charged with Governance which will be presented to the Audit Committee at their meeting in September 2018. The report will provide a summary of the results of the audit work and the detail of any significant matters, which have arisen.

Financial Implications for London Councils

None

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendices

Appendix A Draft External Audit Plan 2017/18

Background Papers

Final Accounts working file 2017/18



External Audit Plan 2017/18

London Councils

DRAFT: February 2018

Financial Statement Audit

This is the audit plan for the three London Councils Committees, which prepare their accounts under the Code of Practice on Local Authority Accounting ("the Code"), and London Councils Limited, which complies with the Companies Act. There are no significant changes to the Code or Companies Act in 2017/18 which provides stability

Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- **Pension liabilities (Three Committees):** the valuation of London Council's pension liability, as calculated by the Actuary, is dependent on the accuracy and completeness of the data provided and the assumptions adopted. We will review the processes to ensure accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation; and
- **Management override of control (Three Committees and London Councils Limited):** Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Other information

Logistics and team

Our team is led by :

- Andy Sayers - Partner
- Neil Hewitson – Director
- Steve Lucas – Senior Manager
- Taryn Retief – Assistant Manager

Our work will be completed in four phases from January to September and our key deliverables are this Audit Plan and a Report to those charged with Governance.

Fees

Our fee for the audit of the three Committees is £35,100 (2016/17: £35,100) and the fee for the audit of London Councils Limited is £900 (2016/17: £900)

Acknowledgement

We thank officers and Members for their continuing help and cooperation throughout our audit.

The contacts at KPMG in connection with this report are:

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Director

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Steve Lucas
Senior Manager

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Headlines

1. Introduction
2. Financial statements audit planning
3. Other matters

Appendices

- 1: Key elements of our financial statements audit approach
- 2: Audit team
- 3: Independence and objectivity requirements
- 4: Quality framework

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This report is addressed to London Councils and has been prepared for the sole use of the London Councils. We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public 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.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Neil Hewitson, the engagement lead to the London Councils, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner, Andrew Sayers (0207 694 8981, andrew.sayers@kpmg.co.uk).

1. Introduction

Background and statutory responsibilities

This document supplements our Engagement Letters for London Councils and London Councils Limited, both dated 27 February 2016, which have been provided to management and sets out the terms of our engagement. London Councils prepare four sets of accounts:

Joint Committee - consolidated

Grants Committee

Transport and Environment Committee

London Councils Limited.

The three Committee accounts are prepared in accordance with proper practices set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the company accounts are prepared in accordance with UK Generally Accepted Accounting Practice and the Companies Act 2006.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary

Financial statements audit

Our financial statements audit follows a four stage process:

- Financial statements audit planning
- Control evaluation
- Substantive procedures
- Completion

Appendix 1 provides more detail on these stages. This plan concentrates on the Financial Statements Audit Planning stage.

2. Financial statements audit planning

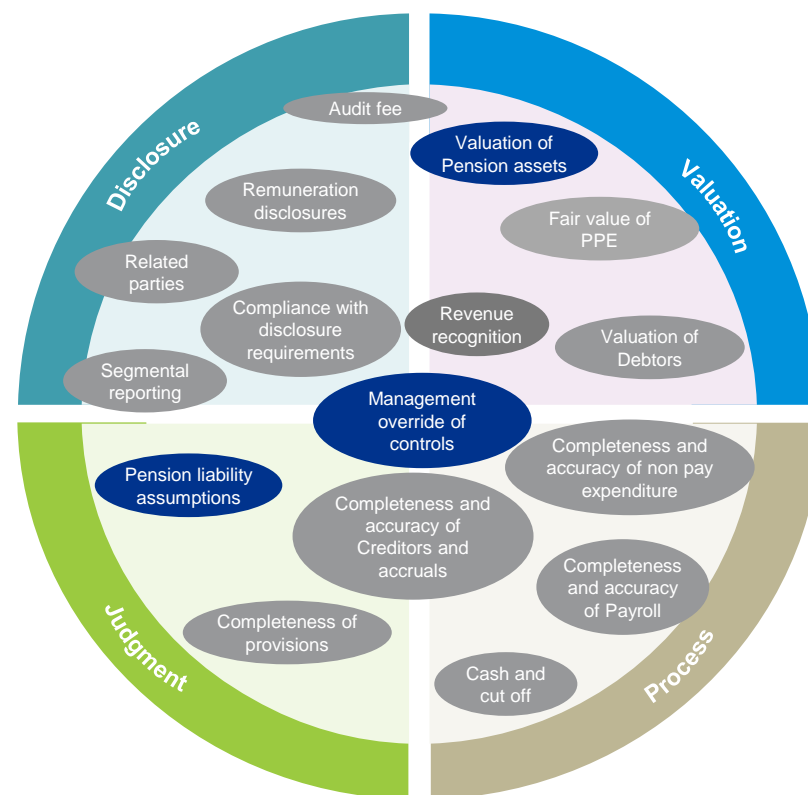
Financial statements audit planning

Our planning work takes place in January and February 2018 and involves: determining materiality; risk assessment; identification of significant risks; consideration of potential fraud risks; identification of key account balances and related assertions, estimates and disclosures; consideration of Management's use or experts; and issuing this plan to communicate our audit strategy.

Risk assessment

Professional standards require us to consider two standard risks. We consider them as a matter of course and will include any findings arising from our work in our ISA 260 Report.

- **Management override of controls:** Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit incorporates the risk of Management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- **Fraudulent revenue recognition:** We do not consider this to be a significant risk for London Councils as there are limited incentives and opportunities to manipulate the way income is recognised. The main source of income is a levy paid by the 33 London Boroughs which is set annually to cover costs of London Councils. For London Councils Limited the main source of income is subscriptions from boroughs. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.



Key:

- Significant risks
- Example other areas considered by our approach

2. Financial statements audit planning

Significant audit risk

The risk requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the three London Councils Committees.

Pension liabilities

Risk: The net pension liability represents a material element of London Councils' balance sheet. London Councils is an admitted body of London Pension Fund Authority (LPFA) which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.

There are financial assumptions and demographic assumptions used in the calculation of London Councils' valuation, such as the discount rate, inflation rates, mortality rates etc. Assumptions should reflect the profile of London Councils' employees and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of London Councils' pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.

Approach: We will review controls that London Councils has in place over the information sent directly to the Scheme Actuary. We will liaise with the auditors of the Pension Fund to gain an understanding of the effectiveness of controls operated by the Pension Fund. We will also evaluate the competency, objectivity and independence of Barnett Waddingham.

We will review the appropriateness of key assumptions in the valuation, compare them to expected ranges, and consider the need to make use of a KPMG actuary. We will review the methodology applied in the valuation by LPFA. In addition, we will review the overall Actuarial valuation and consider the disclosure implications in the financial statements.

2. Financial statements audit planning

Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements. Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a amount outside of a range which we consider to be acceptable.

Reporting to the Audit Committee

For London Councils Joint Committee (Consolidated accounts), materiality for planning purposes has been set at £1,300,000 which (just under 2% percent of 2016/17 gross expenditure) for the Joint Committee.

	Benchmark	Materiality	Performance materiality	Trivial threshold
Joint Committee (Consolidated accounts)	Gross Expenditure	£1,300,000	£975,000	£65,000

We design our procedures to detect individual errors at a lower level of precision by setting our performance materiality benchmark. This has been set at a level of £975,000 for London Councils Joint Committee.

Whilst our procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to Audit Committee unadjusted misstatements of lesser amounts to the extent that these are identified by our audit.

Further to the materiality discussed above, we have determined a separate materiality level for each Committee, including the core transactions of the Joint Committee, alongside the limited company. This affords us the opportunity to assess each Committee / Company with an adequate level of scrutiny.

	Benchmark	Materiality	Performance materiality	Trivial threshold
Joint Committee core	Gross Expenditure	£190,000	£140,000	£9,000
Grants Committee	Gross Expenditure	£160,000	£120,000	£8,000
Transport and Environment Committee	Gross Expenditure	£850,000	£635,000	£40,000
London Councils Ltd	Gross Expenditure	£35,000	£26,000	£1,750

Under ISA 260 (UK&I) we report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance, and to request that adjustments are made to correct such matters. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

- In the context of the consolidated Joint Committee we propose to report all individual unadjusted differences greater than £65,000 to the Audit Committee.
- In the context of London Councils Limited we propose to report all individual unadjusted differences greater than £1,750 to the Board of Directors.
- We will also have regard to other errors below this amount if evidence of systematic error or if material by nature.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

3. Other matters

Certification of AR 27 Return

London Councils, as an employer's association, has an obligation under the Trade Union and Labour Relations (Consolidation) Act 1992 to submit an annual return (AR27) to the Certification Officer. The information included in the return is based on the audited financial accounts. The Act imposes a duty on London Councils to appoint an auditor to audit the accounts included in the return. We will certify London Councils AR 27 return.

Our audit team

Our audit team for London Councils will be led by Neil Hewitson (Director) and Steve Lucas (Senior Manager). Andy Sayers (Partner) will lead the audit team for London Councils Limited.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our communication outputs are included in Appendix 1.

Liaising with internal audit

ISA (UK & Ireland) 610 (revised June 2013) defines how we can use the work of internal audit. Our approach ensures we comply with these requirements. We will liaise with internal audit and review the findings from their programme of work for 2016-17. We will also consider any significant control deficiencies identified by internal audit and ensure that we take this into account where relevant to determine the nature of our audit work to ensure the risk is appropriately addressed.

Independence and Objectivity

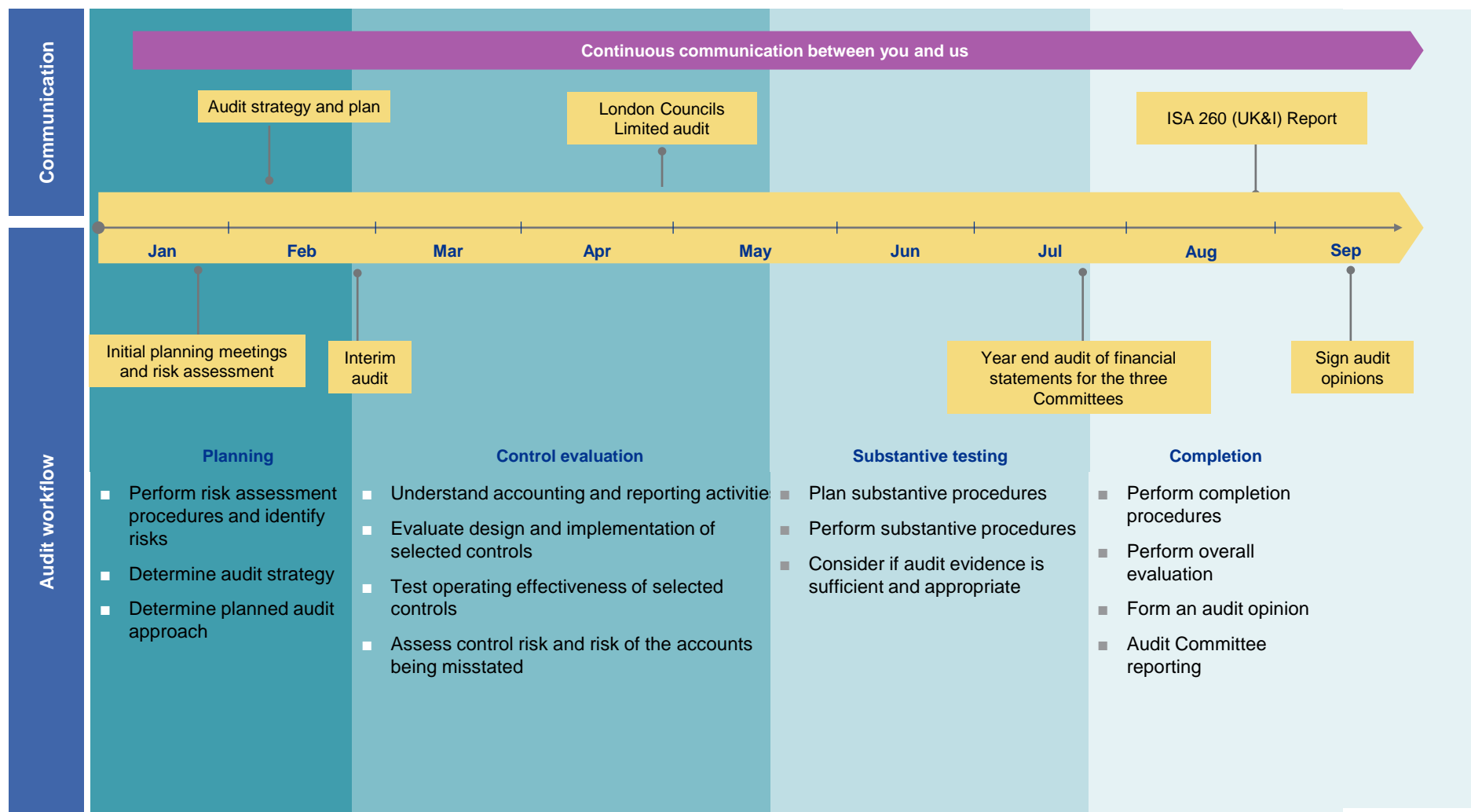
Auditors are also required to be independent and objective.

Audit fee

Our tender submission provided to London Councils in October 2015 set our proposed audit fee for the three Committees and company at £36,000. We agreed the split with officers at £35,100 for the three Committees and £900 for London Councils Limited.

The proposed fee is in line with our proposal at £36,000 (2016/17: £36,000). Should there be a need to charge additional audit fees then this will be agreed with the Director of Corporate Resources and presented to the Audit Committee.

Appendix 1: Key elements of our financial statements audit approach



Appendix 2: Audit team

Your audit team has been drawn from our specialist public sector assurance department. Neil Hewitson and Steve Lucas will lead the audit at a senior level, with Taryn providing the leadership during the on-site visits. Details of each individual and their roles within the team are set out below. Andy Sayers will lead the London Councils Limited audit.



Name	Neil Hewitson neil.hewitson@kpmg.co.uk
Position	Director
	<p>'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.</p> <p>I will be the main point of contact for the Audit Committee, Committee Members and the Director of Corporate Resources'.</p>



Name	Taryn Retief taryn.retief@kpmg.co.uk
Position	Assistant Manager
	<p>'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'</p>



Name	Steve Lucas stephen.lucas@kpmg.co.uk
Position	Senior Manager
	<p>'I will work closely with your staff to ensure we add value.</p> <p>I will liaise with the Head of Financial Accounting and the Finance Team'.</p>



Name	Andy Sayers andrew.sayers@kpmg.co.uk
Position	Partner
	<p>'My role is to lead our team on the London Councils Limited audit and sign off the audit opinion'.</p>

Appendix 3: Independence and objectivity requirements

Independence and objectivity

We are required to communicate to you in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

We have considered the fees paid to us by London Councils for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

Audit matters

We are required to comply with *ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance*, *UK Ethical Standard 1 (Revised) Integrity, objectivity and independence* and *UK Ethical Standard 5 (Revised) Non-audit services provided to audited entities* issued by the UK Auditing Practices Board when carrying out the audit of the accounts.

ISA 260 requires that we consider the following audit matters and formally communicate them to those charged with governance:

- Relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement lead and audit staff.
- The general approach and overall scope of the audit, including any expected limitations thereon, or any additional requirements.
- The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on London Councils' financial statements.
- The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements.
- Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on London Councils' financial statements.
- Material uncertainties related to event and conditions that may cast significant doubt on London Councils' ability to continue as a going concern.
- Disagreements with management about matters that, individually or in aggregate, could be significant to London Councils' financial statements or the auditor's report. These communications include consideration of whether the matter has, or has not, been resolved and the significance of the matter.

As part of our communications to you in our ISA 260 report that we will issue later in the year we will confirm to you that we have made enquiries of all KPMG team members whose work will contribute to us forming our opinion on the truth and fairness of the financial statements.

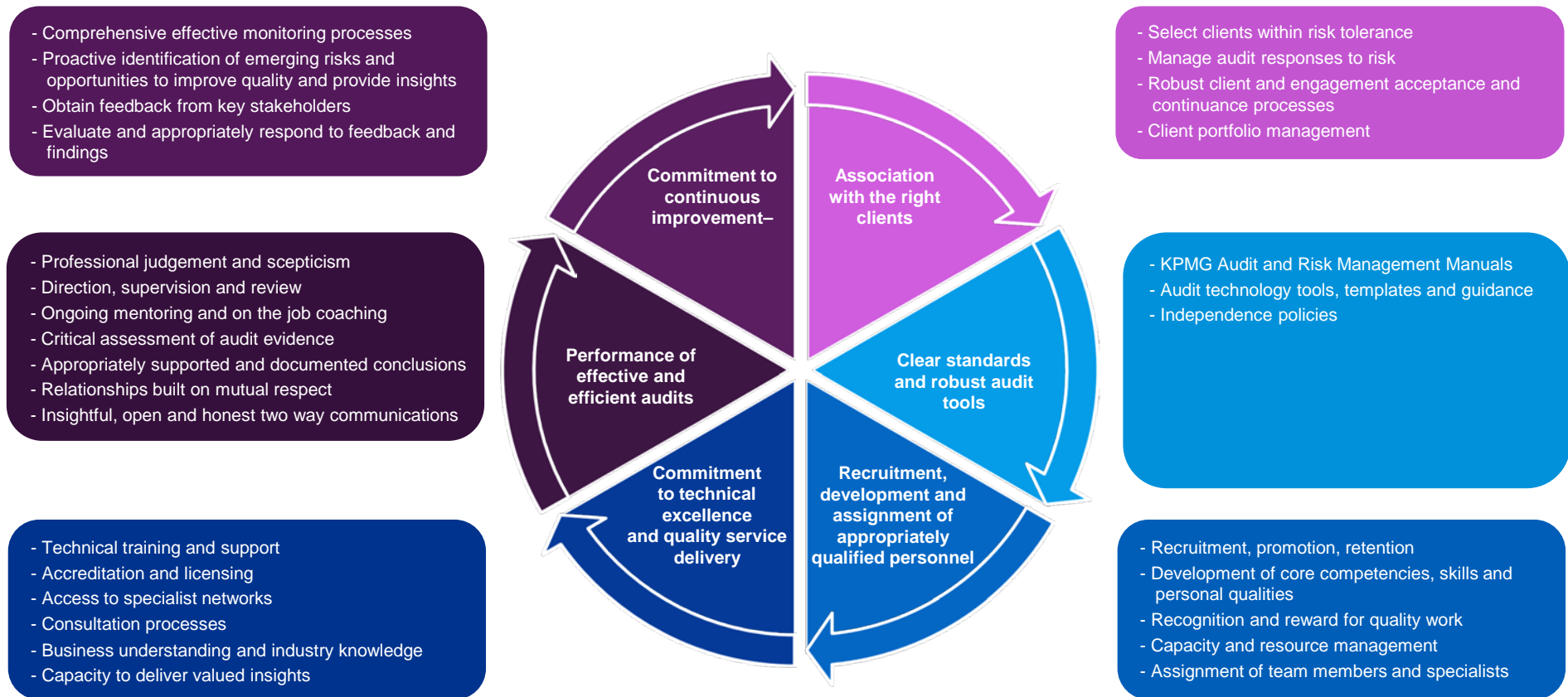
In addition to the accounts opinion we will also confirm to you in our ISA 260 report any other work that has been undertaken by KPMG on behalf of London Councils. At this planning stage we can confirm that KPMG has not been engaged to provide any non-audit services to London Councils.

Confirmation statement

We confirm that as of 5 February 2018 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

Appendix 4: Quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework





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This report is addressed to London Councils and has been prepared for the sole use of London Councils. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public 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.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Neil Hewitson, the engagement lead, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for Public Sector Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk.

Audit Committee

Internal Audit Reviews

Item no: 06

Report by: Pat Stothard **Job title:** Head of Audit & Risk Management (City of London Corporation)

Date: 22 March 2018

Contact Officers: Martha Yolima Franco Murillo, Senior Auditor (City of London Corporation)
Email: MarthaYolima.FrancoMurillo@cityoflondon.gov.uk

Jeremy Mullins, Audit Manager (City of London Corporation)
Email: jeremy.mullins@cityoflondon.gov.uk

Pat Stothard, Head of Audit & Risk Management (City of London Corporation)
Email: pat.stothard@cityoflondon.gov.uk

Summary The purpose of this report is to provide the Committee with an update of internal audit work that has been undertaken since the last committee update report made at the September 2017 meeting.

Recommendations The Audit Committee is asked:

- to note the Internal Audit Plan Progress Report for 2017/18 attached at Appendix A; and
 - to note and comment on the contents of the internal audit reports on Information Management and Security and the Financial Controls for Petty Cash, Inventories and Procurement Cards attached at Appendix B and C respectively.
-

Introduction

1. At its meeting on 23 March 2017 the Audit Committee approved the Internal Audit Plan for 2017/18 that was proposed by the City of London's Internal Audit section under the terms of the service level agreement for financial support services.

Internal Audit Plan 2017/18

2. The status of the 2017/18 is presented below:

Planned Audits	Days	Status
Financial Controls for Petty Cash, Inventories and Procurement Cards	5	Final report presented at Appx B
Grants	20	Fieldwork has been completed, draft report being reviewed
Parking and Traffic	15	Terms of reference agreed and fieldwork to commence in March 2018
ICT Remote Access and Mobile Devices	10	Fieldwork in progress
Follow Ups	5	Work in progress

3. The Internal Audit Plan Progress Report for 2017/18 is attached at Appendix A. The internal audit reviews included in this report are the 2017/18 Financial Controls for Petty Cash, Inventories and Procurement Cards and the 2016-17 Information Management and Security.

Internal Audit Reviews

Financial Controls for Petty Cash, Inventories and Procurement Cards

4. The objective of the audit was to provide assurance on the adequacy of the arrangements for managing petty cash including imprest accounts maintenance and safekeeping of cash, procurement cards and inventory maintenance.
5. The audit established that the petty cash and imprest account administration and management is adequately controlled, with a clear chronological transaction audit trail in place, and supplemented by the mandatory documents such as claim forms and receipts appropriately authorised. A regular reconciliation exercise is undertaken by the Head of Financial Accounting of petty cash transactions against the remaining cash float, with a final sign-off as confirmation that there are no discrepancies. The audit also established that suitable arrangements are in place to keep the petty cash float secure. A minor recommendation was made to improve the clarity of the details held in the petty cash claim form.
6. The audit determined that an adequate inventory management process is in operation and the inventory details are in line with the London Council Financial Regulations (section 14.9). The inventory records also include inventory replacement costs, which enables the Finance team to determine the total asset value for insurance purposes. This audit also established that two previous audit recommendations in respect to inventory controls had been implemented.

7. Documented procedures for procurement card transactions are published on the London Councils intranet, and it is understood from the Head of Financial Accounting that London Councils has adopted some of the guidance from the City of London policy with respect to procurement cards. The CityCard system from Lloyds TSB is utilised for online reporting and transaction management for procurement card transactions. The audit identified that the arrangements for processing, authorising and reconciling procurement card purchases were well documented and managed. An amber recommendation was made to include procurement card guidelines in the Financial Regulations.
8. The full report on the Financial Controls for Petty Cash, Inventories and Procurement Cards is attached at Appendix B.

Information Management and Security

9. This audit was a high level review of Information Governance and Information Security focusing on the adequacy of the arrangements for: compliance with the Data Protection Act, staff information security, disposal of sensitive and confidential data and access to information.
10. This audit identified that data protection guidance is available to London Councils' staff and this is in line to the eight data protection principles. A data protection policy and some supporting processes are in operation. Arrangements are in place to review the documentation in 2017, in conjunction with other current work, such as the Information Governance Improvement Programme. Two green priority recommendations have been made to: consider inclusion of document version control to improve clarity of reviews and changes undergone, and to document decisions made in respect to data classification.
11. It was determined that steps are being taken to achieve the May 2018 GDPR deadline. London Councils has undertaken an initial exercise recommended by the Information Commissioner's Office (ICO) to prepare for the GDPR, and the Corporate Governance Manager has produced a plan to achieve the GDPR deadline.
12. A record of breaches has been agreed to be included as a standard item for the London Councils annual report, with the breach details recorded in line with industry guidelines from Information Commissioners Office.
13. Audit testing in respect of staff training arrangements established that training is considered to be key for maintaining user awareness of information management. It is understood that recent information security training was completed by all London Councils staff in January 2017 and a new online training format has also been approved for future training.
14. Audit testing indicated that data disposal and data destruction arrangements are in operation. An external specialist company, certified in data removal and destruction practices, is contracted to destroy data in line with standard practice. The associated London Councils policy documentation incorporates guidance on disposal of data held in paper form and electronically. An amber recommendation has been made to introduce a disposal register to provide evidence that all items are destroyed as required.
15. Audit testing indicated that some controls are in operation which limit access to data on the London Councils' network; however, there is also scope for strengthening controls in some areas. Opportunity for improvements was noted in relation to the utilisation of USB

devices. It is understood that London Councils considers the freedom to use portable media (such as USB devices) as an essential requirement. Given the potential risks and fines associated with any data loss, additional controls should be considered to mitigate risk, resulting in an amber recommendation. Another amber recommendation was also made to implement password controls in line with standard industry guidelines. All five recommendations were accepted by the relevant officers.

16. The full report on the Information Management and Security is attached at Appendix C.

Internal Audit Recommendation Follow-Up Exercise 2017-18

17. Work has commenced on the follow up on the implementation of recommendations made in previous audit reviews. The outcome of the follow up reviews will be reported at the next meeting of the Audit Committee in June 2018.

Conclusion

18. Work is progressing on the 2017-18 audit plan and the annual internal audit recommendation follow up exercise. Work on the 2016/17 Internal Audit Plan is completed.

Financial Implications for London Councils

None

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendices

Appendix A: Internal Audit Plan Progress Report for 2017/18
Appendix B: Internal audit report on Financial Controls for Petty Cash, Inventories and Procurement Cards
Appendix C: Internal audit report on Information Management and Security

Background Papers

Audit Committee report on Internal Audit Planned Work 2017/18 dated 23 March 2017
Internal audit work files for 2017/18

London Councils Internal Audit Plan Progress Report 2017/18

AUDIT REVIEW	MAN DAYS	PROGRESS	ASSURANCE RATING	OBJECTIVES	RECOMMENDATIONS			
Financial Controls for Petty Cash, Inventories and Procurement Cards	5	Final Report	Moderate Amber	This will be a probity audit exercise of compliance with controls and veracity of transactions.	RED 0	AMBER 1	GREEN 1	TOTAL 2
Key Conclusions <u>Petty Cash and Imprest Account Management:</u> <ol style="list-style-type: none"> Audit testing established that the petty cash and imprest account administration and management is adequately controlled, with a clear chronological transaction audit trail in place, and supplemented by the mandatory documents such as claim forms and receipts. Audit noted that a regular reconciliation exercise is undertaken by the Head of Financial Accounting of petty cash transactions against the remaining cash float, with a final sign-off as confirmation that there are no discrepancies. Audit also established that suitable arrangements are in place to keep the petty cash float secure at all times. A minor recommendation has been made to improve the clarity of the details held in the petty cash claim form (recommendation 1). Established processes were noted to be in place to ensure that appropriate authorisation is obtained for each claim. The processes were determined to be effective by Audit after examination of a sample of five petty cash claims which were randomly selected and all found to be properly authorised. <u>Inventory Management:</u> <ol style="list-style-type: none"> On the basis of Audit sample testing it was determined that an adequate inventory management process is in operation. Examination of the inventory data identified it to be current and the inventory details were found to be in line with the current (June 2015) London Council Financial Regulations (section 14.9). The inventory records also include an essential information item, inventory replacement costs, which enables the Finance team to determine the total asset value for (re)insurance purposes. Audit established that two previous audit findings (from a January 2015 audit spot check) with respect to lack of a review of furniture and equipment, and inventory controls not in accordance with London Councils regulations have both been addressed. The spot check findings are detailed in the findings section below. <u>Procurement Cards:</u> <ol style="list-style-type: none"> There is only one procurement card in operation at London Councils. From Audit examination of a sample of seven randomly selected card transactions, the arrangements for processing, authorisation and reconciliation of procurement purchases were considered to be well documented and managed. An amber recommendation was made to include procurement card guidelines in the Financial Regulations (recommendation 2) at the next review of the regulations. Documented procedures for procurement card transactions are clearly published on the London Councils intranet, and it is understood from the Head of Financial Accounting that London Councils has adopted some of the guidance from the City of London policy with respect to procurement cards. The CityCard system from Lloyds TSB is utilised for online reporting and transaction management for procurement card transactions. 					Management Comments <p>Recommendation 1: Include printed name(s) and signature(s) as a mandatory requirement for completion of a petty cash claim.</p> <p>A revised form that includes the full name and signature of the claimant and approving officer has been prepared and issued staff.</p> <p>Responsibility: Principal Finance Officer Target Implementation Date: Completed</p> <p>Recommendation 2: Include procurement card restrictions/guidelines into the London Councils Financial Regulations at the next review of the Regulations.</p> <p>A section which incorporates the current guidelines on the use of the procurement card will be drafted for inclusion in London Councils' Financial Regulations. The proposed amendment to the regulations will be put forward to the Leaders Committee for approval at its next Annual General Meeting in June 2018.</p> <p>Responsibility: Head of Financial Accounting Target Implementation Date: June 2018</p>			

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AUDIT REVIEW	MAN DAYS	PROGRESS	ASSURANCE RATING	OBJECTIVES	RECOMMENDATIONS			
Grants (2017-18)	20	Fieldwork		The purpose of this audit is to follow-up on improvements recommended at the last review and undertake site visits to grant recipients shadowing the work of the grant team on regular monitoring visits.	RED	AMBER	GREEN	TOTAL
Key Conclusions					Management Comments			

Audit Review	Man Days	Progress	Assurance Rating	Objectives	Recommendations			
Parking and Traffic	15	Planning		This audit will examine the management of the appeals process.	Red	Amber	Green	Total
Key Conclusions					Management Comments			

AUDIT REVIEW	MAN DAYS	PROGRESS	ASSURANCE RATING	OBJECTIVES	RECOMMENDATIONS			
ICT Remote Access and Mobile Devices	10	Fieldwork		An evaluation of the adequacy of security controls for staff working from home, and the use of mobile devices such as USB sticks and dongles.	RED	AMBER	GREEN	TOTAL
Key Conclusions					Management Comments			

AUDIT REVIEW	MAN DAYS	PROGRESS	ASSURANCE RATING	OBJECTIVES	RECOMMENDATIONS			
Follow Ups	5	Fieldwork			RED	AMBER	GREEN	TOTAL
Key Conclusions								
Total	55							

* Subject to agreement of scope with service managers when preparing the terms of reference.

CITY OF LONDON

CHAMBERLAIN'S DEPARTMENT

INTERNAL AUDIT SECTION



**LONDON COUNCILS
FINANCIAL CONTROLS FOR PETTY CASH,
INVENTORIES and PROCUREMENT CARDS**

FINAL REPORT

Date Issued: 25th January 2018

Issued to:	Director of Corporate Resources	-	Frank Smith
	Head of Financial Accounting	-	David Sanni
	Information & Communications Technology	-	Roy Stanley
	and Facilities Manager		



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Audit Fieldwork Completed	September 2017
Draft Report Issued	November 2017
Management Response Received Agreeing Recommendations	December 2017
Final Report Issued	January 2018



SECTION A : EXECUTIVE SUMMARY

Introduction

1. This audit was undertaken as part of the Internal Audit Plan of 2017/18.
2. London Councils is a cross-party organisation, funded by London member authorities comprising of 32 London boroughs and the City of London Corporation. London Councils helps London boroughs improve the services they deliver as well as running a range of services itself, all designed to make life better for Londoners.
3. The London Councils Financial Regulations detail the responsibilities, procedures and working practices in relation to day to day financial administration. Internal Audit last performed a review of the arrangements in the areas of petty cash and inventory management in 2014/15. The findings concluded that the inventory had not been maintained and updated adequately. This audit will re-examine the adequacy of the arrangements for the areas of petty cash and inventories, and it will also examine the controls in operation for procurement card transactions.
4. The objective of the audit was to provide assurance on the adequacy of the arrangements for managing petty cash including imprest accounts maintenance and safekeeping of cash, procurement cards and inventory maintenance. Audit testing was carried out to determine the adequacy of arrangements in operation for the following:
 - Maintenance of petty cash and the imprest account system to ensure the level of petty cash is adequately managed, authorised, petty transactions recorded, and that the cash float is kept in securely during the day and overnight.
 - Maintenance of inventory information to ensure that it is in accordance with London Councils financial regulations and to determine the quality of the inventory records for identification and location purposes.
 - Procurement card payments, to ensure that invoices are routinely checked and the procurement transactions authorised/approved by senior management to prevent inappropriate purchases being made with

the procurement card.

5. Internal Audit sought to obtain assurance as to the adequacy of the internal control environment. The audit opinion, below, is based upon discussion with key staff, examination of systems and the findings of sample testing, as such, our work does not provide absolute assurance that material error, loss or fraud does not exist.

Assurance Statement

Assurance Level	Description			
Moderate Assurance 'Amber'	An adequate control framework is in place but there are weaknesses and/or a lack of compliance which may put some system objectives at risk.			
Recommendations	Red	Amber	Green	Total
Number Made:	0	1	1	2
Number Accepted:	0	1	1	2

Key Conclusions

Petty Cash and Imprest Account Management:

6. **Audit testing established that the petty cash and imprest account administration and management is adequately controlled, with a clear chronological transaction audit trail in place, and supplemented by the mandatory documents such as claim forms and receipts. Audit noted that a regular reconciliation exercise is undertaken by the Head of Financial Accounting of petty cash transactions against the remaining cash float, with a final sign-off as confirmation that there are no discrepancies. Audit also established that suitable arrangements are in place to keep the petty cash float secure at all times. A minor recommendation has been made to improve the clarity of the details held in the petty cash claim form (recommendation 1).**



7. **Established processes were noted to be in place to ensure that appropriate authorisation is obtained for each claim. The processes were determined to be effective by Audit after examination of a sample of five petty cash claims which were randomly selected and all found to be properly authorised.**

Inventory Management:

8. **On the basis of Audit sample testing it was determined that an adequate inventory management process is in operation. Examination of the inventory data identified it to be current and the inventory details were found to be in line with the current (June 2015) London Council Financial Regulations (section 14.9). The inventory records also include an essential information item, inventory replacement costs, which enables the Finance team to determine the total asset value for (re)insurance purposes.**
9. **Audit established that two previous audit findings (from a January 2015 audit spot check) with respect to lack of a review of furniture and equipment, and inventory controls not in accordance with London Councils regulations have both been addressed. The spot check findings are detailed in the findings section below.**

Procurement Cards:

10. **There is only one procurement card in operation at London Councils. From Audit examination of a sample of seven randomly selected card transactions, the arrangements for processing, authorisation and reconciliation of procurement purchases were considered to be well documented and managed. An amber recommendation was made to include procurement card guidelines in the Financial Regulations (recommendation 2) at the next review of the regulations.**
11. **Documented procedures for procurement card transactions are clearly published on the London Councils intranet, and it is understood from the Head of Financial Accounting that London Councils has adopted some of the guidance from the City of London policy with respect to procurement cards. The CityCard system from Lloyds TSB is utilised for online reporting and transaction management for**



procurement card transactions.

SECTION B : AUDIT FINDINGS AND RECOMMENDATIONS

Petty Cash and Imprest Account Management:

12. London Councils Financial Regulations document includes a section on imprest accounts which provides clear direction on petty cash and imprest account management. The regulations state that imprest accounts and petty cash transactions shall be 'supported by receipts' and that 'No officer shall authorise his or her own claims'. Audit testing established a process to be in operation in support of these requirements including transaction authorisation at an appropriate level and a chronological record of transactions with receipts.
13. Audit established that the petty cash is kept in a key operated lock box which is then placed in the safe in the Finance office. It is understood that the petty cash box is only removed from the safe during timespan of a petty cash transaction (i.e. extracting money to pay the claimant), or during the petty cash reconciliation process, after which it is placed back in the safe.
14. Audit examination of a sample of London Councils' transactions and documents for compliance with Financial Regulations indicated an adherence to the following selected regulations;
 - No officer shall authorise his or her own claim;
 - All payments shall be supported by vouchers and receipts where appropriate, and
 - Finance officer to be provided with certificates annually of the balance held in the account.
15. An adequate separation of duties was identified to be in place with administration and management of the petty cash undertaken by one member of the Finance team, and authorisation of transaction taken by an approved signatory.
16. Audit established that a single petty cash and imprest account is in operation for London Councils, with a cash float limit set to £500. The Financial Regulations

advises a maximum value of £50 per single item unless otherwise approved by the Director of Corporate Resources. The majority of the March 2017 transactions examined by Audit were verified to be under the £50 threshold, and for the two petty cash claims above the £50 there was evidence of appropriate authorisation by the Director of Corporate Resources. One claim was for postage stamps for £72.60, and the other for gardening services for £66.90.

17. Audit identified good practice in the authorisation process whereby authorisation is strictly limited to an agreed list of approved signatories. For signature verification purposes each approver is required to sign a sample signature form which is kept by the Finance team and used to validate the signature. The same approver list is utilised for procurement card approval as well as petty cash claims approval. Audit testing of a sample of five transactions was able to establish all claim approvers were from the approver list.
18. Audit established that two different types of claim forms are currently in use. One type was found to require only a signature, whilst the other required a printed name and a signature. A recommendation has been made to introduce print name and signature as mandatory requirements on the claim form to improve clarity.

Priority	Issue	Risk
Green	Sample testing identified examples of claims forms containing only signatures, thereby making it occasionally difficult to identify the claimant and/or the authoriser.	Claim form details may be falsified to misappropriate petty cash. This is made easier by lack of requirement to include a printed name.
Recommendation 1: Include printed name(s) and signature(s) as a mandatory requirement for completion of a petty cash claim.		
Management Response and Action Plan A revised form that includes the full name and signature of the claimant and approving officer has been prepared and issued staff. Responsibility: Principal Finance Officer Target Implementation Date: Completed		



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

Inventory Management:

19. The London Councils Financial Regulations section 14.9 states that the following should be recorded for each inventory item; location, description, serial/code number, purchase date, cost, estimated replacement value, date of disposal.
20. Audit examination of the inventory list established that it was in accordance with regulation, and with most fields completed; however, a minority of records had some missing information. A recommendation has not been made on the basis that the inventory information is known to have been entered retrospectively, and for some older items there is no longer any information available, for example purchase dates for tables.
21. The Finance team informed Audit that for all new purchases the inventory process is to record all the information in line with the Financial Regulations, a check of the most recently purchased items on the inventory list determined this to be in operation.
22. It was also noted that the replacement cost was present for all non-leased inventory items (old and new inventory items), which is of significance since this enables the Finance team to derive a more realistic total inventory value, which can then be used for insurance purposes.
23. Audit established that the inventory data has been captured and separated into the London Councils categories for example: tables, chairs, pc monitors, copiers etc. It is understood that all inventory assets are tagged with a unique asset number to enable them to be easily identified.



24. To verify the accuracy of the inventory records process and data recorded, a sample of three items from a range of 2017 invoices was randomly selected, and traced from the invoice details to its record in the inventory list, and finally to its physical location. All items were clearly traceable, locatable and found to be present in the inventory listings with correct details.
25. Another sample of three items was traced from their physical locations to their inventory records, and finally to the related invoices. Again, all items were clearly identified, indicating that the inventory management process is adequate.
26. A January 2015 audit spot check on inventory management noted that *'Controls over the maintenance and security of inventories are unsatisfactory and not in accordance with Financial Regulations (i.e. Section 11.0). Inventories of furniture and equipment have not been reviewed or updated since the previous Internal Audit spotcheck last April 2014 where it was identified that the inventories had not been updated since 2010'*. Audit sample testing established these areas have now been addressed (see above).

Procurement Cards:

27. A Lloyds Bank online system is used by card holders to upload credit card transaction receipts/evidence, and the approval of the transactions is performed online by the line managers. A system generated email is issued to the users/managers as a reminder to update or approve the transactions. The payments made using the Lloyds Bank PLC procurement card are also recorded in a statement form and emailed to the Finance team, enabling them to perform checks and attach supporting documentation such as invoices and receipts.
28. Through discussion with the Finance staff, it was established that elements of the City of London purchasing card policy are followed by London Councils, however, a London Councils procurement card policy does not exist. The Director of Corporate Resources and the Head of Financial Accounting confirmed that London Councils' procurement card transactions are restricted to, and managed by the Finance team. It was also confirmed that there is only a single procurement card in operation, and there is no intention to increase the number of cards in use, however to ensure completeness of the regulations documentation, an amber

recommendation has been made.

Priority	Issue	Risk
Amber	Procurement card information is not documented in the Financial Regulations.	Lack of clarity on the use of procurement card resulting in potentially improper procurement practices.
Recommendation 2: Include procurement card restrictions/guidelines into the London Councils Financial Regulations at the next review of the Regulations.		
Management Response and Action Plan A section which incorporates the current guidelines on the use of the procurement card will be drafted for inclusion in London Councils' Financial Regulations. The proposed amendment to the regulations will be put forward to the Leaders Committee for approval at its next Annual General Meeting in June 2018.		
Responsibility: Head of Financial Accounting Target Implementation Date: June 2018		
* Where recommendation not accepted indicate alternative action that will be taken to mitigate risk or reasoning for accepting risk exposure to be provided		

29. Audit established that the primary purpose of the procurement card is to enable online purchases of items such as conference tickets, professional subscriptions functions, hotel rooms etc.

30. The arrangements for authorisation of procurement card transactions were established to be suitably controlled. The initial purchase request form requires approval from a senior member of staff prior to further processing. From the sample of seven transactions examined, Audit confirmed that each purchase request was duly signed (from the approver list) by a senior member of staff.



31. Audit testing for a sample of transactions verified that every sample transaction was fully supported with supporting documentation such as online invoice statements and receipts.
32. Audit established that the Head of Financial Accounting currently checks and approves the transaction on a monthly basis and on completion of the reconciliation, prints out and signs a copy of the statement for Finance team records.

APPENDIX 1: AUDIT DEFINITIONS AND RESPONSIBILITIES

Assurance levels

Category	Definition
Nil Assurance 'Dark Red'	There are fundamental weaknesses in the control environment which jeopardise the achievement of system objectives and could lead to significant risk of error, fraud, loss or reputational damage being suffered.
Limited Assurance 'Red'	There are a number of significant control weaknesses and/or a lack of compliance which could put the achievement of system objectives at risk and result in error, fraud, loss or reputational damage.
Moderate Assurance 'Amber'	An adequate control framework is in place but there are weaknesses and/or a lack of compliance which may put some system objectives at risk.
Substantial Assurance 'Green'	There is a sound control environment with risks to system objectives being reasonably managed. Any deficiencies identified are not cause for major concern.

Recommendation Categorisations

Priority	Definition	Timescale for taking action
Red - 1	A serious issue for the attention of senior management and reporting to the appropriate Committee Chairman. Action should be initiated immediately to manage risk to an acceptable level	Less than 1 month or more urgently as appropriate
Amber - 2	A key issue where management action is required to manage exposure to significant risks, action should be initiated quickly to mitigate the risk.	Less than 3 months



Green - 3	An issue where action is desirable and should help to strengthen the overall control environment and mitigate risk.	<u>Less than 6 months</u>
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Note:- These 'overall assurance level' and 'recommendation risk ratings' will be based upon auditor judgement at the conclusion of auditor fieldwork. They can be adjusted downwards where clear additional audit evidence is provided by management of controls operating up until the point of issuing the draft report.

What Happens Now?

The final report is distributed to the relevant Head of Department, relevant Heads of Service, and those involved with discharging the recommended action.

The audit report is provided to the Director of Corporate Resources, Head of Financial Accounting and the Audit Committee. Internal audit will carry out a follow-up exercise of the high priority (red and amber) recommendations approximately six months after the issue of the final audit report. The ongoing progress in implementing each recommendation is reported by Internal Audit to each meeting of the Audit Committee. The final report will be presented at the next meeting of the Audit Committee and the relevant Director or Head of Service will be required to attend the meeting to respond to queries raised by Committee members.

Any Questions?

If you have any questions about the audit report or any aspect of the audit process please contact the auditor responsible (Nirupa Gardner, ext 1298) for the review or Pat Stothard, Head of Audit & Risk Management via email to Pat.Stothard@cityoflondon.gov.uk.



Internal Audit Section – London Councils Information Management & Security - Full Assurance Review – Final Report

CITY OF LONDON

CHAMBERLAIN'S DEPARTMENT

INTERNAL AUDIT SECTION



**LONDON COUNCILS
INFORMATION MANAGEMENT AND SECURITY**

FINAL REPORT

Date Issued: 6th November 2017

Issued To:	Director of Corporate Resources	-	Frank Smith
	Director of Corporate Governance	-	Christiane Jenkins
	Corporate Governance Manager	-	Emily Salinger
	Chief Contracts Officer	-	Stephen Boon
	ICT & Facilities Manager	-	Roy Stanley



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Audit Fieldwork Completed	13 th July 2017
Draft Report Issued	19 th September 2017
Management Response Received Agreeing Recommendations	11 th October 2017
Final Report Issued	6 th November 2017



SECTION A : EXECUTIVE SUMMARY

Introduction

1. This audit was undertaken as part of the internal audit plan of 2016/17.
2. London Council runs a number of services for the member authorities and processes data through various applications, such as the Freedom Pass and Taxicard system. The data attributes may be confidential or sensitive in nature, and need to be managed securely throughout the whole life cycle.
3. The London Councils Corporate Management Board (CMB) ratified the Information Security Policy and the Information Management Guidelines in October 2014. The CMB October 2014 report also identified the need for further work and additional resources to ensure appropriate procedures were put in place. London Councils initiated an Information Governance Improvement Programme to address this, which at the time of audit was in progress.
4. The Data Protection Act (DPA) of 1998 forms the key legislation which governs data protection and controls the use of personal information. As of 25th May 2018 a new regulation, the General Data Protection Regulation (GDPR), will come into force, replacing the DPA. The GDPR will have a wider scope as well as tougher sanctions for non-compliance with the upper limit of financial penalty raised from £500,000 to €20 million.
5. This audit was a high level review of Information Governance and Information Security focusing on the adequacy of the arrangements for:
 - Compliance with the Data Protection Act and evidence of policies and procedures with respect to: data classification; sharing information; and retention of information.
 - Staff information security training and awareness programmes.
 - Disposal of sensitive and confidential data.
 - Limiting access to information held electronically.
6. Internal Audit sought to obtain assurance as to the adequacy of the internal control environment. The audit opinion, below, is based upon discussion with key staff, examination of systems and the findings of sample testing, as such, our work does not



provide absolute assurance that material error, loss or fraud does not exist.

Assurance Statement

Assurance Level	Description			
Moderate Assurance 'Amber'	There is a sound control environment with risks to system objectives being reasonably managed. Any deficiencies identified are not cause for major concern.			
Recommendations	Red	Amber	Green	Total
Number Made:	0	3	2	5
Number Accepted:	0	3	2	5

Key Conclusions

Data Protection Compliance:

7. On the basis of testing performed, there is data protection guidance available to London Councils' staff, and the documentation does refer to the eight data protection principles, which form the basis of the DPA. A data protection policy (from 2014) and some supporting processes are in operation to regulate activity. Arrangements are in place to review the documentation in 2017, in conjunction with other current work, such as the Information Governance Improvement Programme. A green priority recommendation has been made to consider inclusion of document version control to improve clarity of reviews and changes undergone, and another minor green recommendation made to document the decision made with respect to data classification (recommendations 1 and 2).
8. It was determined that steps are being taken to achieve the May 2018 GDPR deadline. London Councils has undertaken an initial exercise recommended by the Information Commissioner's Office (ICO) to prepare for the GDPR, and the Corporate Governance Manager has produced a plan to achieve the GDPR deadline.



9. A record of breaches has been agreed to be included as a standard item for the London Councils annual report, with the breach details recorded in line with industry guidelines from Information Commissioners Office. A recommendation has not been made based on the details already provided to Audit.

Staff Training:

10. Audit testing in respect of staff training arrangements established that training is considered to be key for maintaining user awareness of information management. It is understood that recent information security training was completed by all London Councils staff in January 2017 and a new online training format has also been approved for future training. No recommendations have been made.

Data Disposal:

11. Audit testing indicated that data disposal and data destruction arrangements are in operation. An external specialist company, certified in data removal and destruction practices, is contracted to destroy data in line with standard practice. The associated London Councils policy documentation incorporates guidance on disposal of data held in paper form and electronically. An amber recommendation (recommendation 3) has been made to introduce a disposal register to provide evidence that all items are destroyed as required.

Limiting Access to Electronic Information:

12. Audit testing indicated that some controls are in operation which limit access to data on the London Councils' network; however, there is also scope for strengthening controls in some areas. Opportunity for improvements was noted in relation to the utilisation of USB devices. It is understood that London Councils considers the freedom to use portable media (such as USB devices) as an essential requirement. Given the potential risks and fines associated with any data loss, additional controls should be considered to mitigate risk, resulting in an amber recommendation (recommendation 4). Another amber recommendation (recommendation 5) was also made to implement password controls in line with standard industry guidelines. It is noted that as part of the audit discussions, the London Councils IT team has agreed and is progressing one recommendation already.



SECTION B : AUDIT FINDINGS AND RECOMMENDATIONS

General

- 13.** London Councils is undertaking a major Information Governance Improvement Programme that is expected to result in practices being implemented to reduce information security risks, and provide improved information governance across the London Councils systems. The programme is understood to identify all personal and confidential information and systems in need of protection, and development of processes, to address areas of deficiency, such as lack of alignment to DPA requirements.
- 14.** Audit noted progress being made against the Information Governance Improvement Plan with the first steps completed, such as systems identification and prioritisation, to enable focus on critical areas first, given the limited resources available. The Taxicard and the Freedom Pass systems were identified as two key systems on the basis of sensitivity of the data content and volumes of data held. Progress against the plan for these systems was evident in the documentation output, which detailed information assets, asset risks, asset owners and the creation of an asset retention schedule to comply with the DPA.
- 15.** The Taxicard and the Freedom Pass systems are externally hosted and are due for contract renewal in 2017. Audit has been informed by the London Councils Chief Contracts Officer that the new contract is expected to be agreed and signed by end of May 2017, and that new functionality is to be delivered through system development by October 2017.

Data Protection Compliance

- 16.** The Information Security Policy was found to contain references to DPA and it clarified that the Data Protection Act applies to any data that is 'identifiable' , (i.e. data that can identify an individual).
- 17.** The policy documentation was last updated in 2014 and it is understood that policies will be reviewed in 2017 to reflect changes introduced as a result of the General Data Protection Regulation (GDPR), as well as, the Information Governance Improvement Programme. The absence of a documentation

change/version history was noted, and the addition of version control to the documented policy and procedures should be considered to add clarity.

Priority	Issue	Risk
Green	The policy and procedures documentation does not contain version control information and as a result any important decision/changes made which affect policy/procedures are not immediately obvious in the documentation. To determine the history behind changes requires interrogation of past minutes of meetings.	Where document version control is not in use, there is a potential risk that older out of date versions of a document are being referred by staff with guidance that may no longer be appropriate.
Recommendation 1: Introduce document control and consider adding the following: <ul style="list-style-type: none"> • Version number • Action/Document changes • Approval Authority for change • Action Date • Next review date 		
Management Response and Action Plan This will be addressed within the annual Information Governance report to CMB. Responsibility: Emily Salinger, Corporate Governance Manager Target Implementation Date: November 2017 * Where recommendation not accepted indicate alternative action that will be taken to mitigate risk or reasoning for accepting risk exposure to be provided		

18. Compliance to the DPA was determined with reference to the two key systems which hold sensitive data. A high level assessment was undertaken by Audit (see Appendix 2) which identified that elements of the DPA are present and in operation. The fifth data protection principle of 'Personal Information must not be kept longer than necessary' was determined to be inadequately managed; however, as part of the Information Governance Improvement Programme, it is

understood that all systems will undergo an exercise to address this area. The Taxicard and Freedom Pass systems have completed this step with the retention schedules evidenced by Audit. Audit has been informed that some aged data has already been removed in line with the retention schedule and data retention/removal process will be performed on an on-going basis. A recommendation has not therefore been made at this time.

19. Examples of compliance to the DPA were identified in the application forms used for the Taxicard and Freedom Pass assessment. The application forms completed by individuals clearly specify the purpose for which the data will be used. Each form requires the applicant's consent for use of their data and the criteria under which the data may be shared/used. The table in Appendix 2 shows consideration to the eight data protection principles for the current system.
20. Both Taxicard and Freedom Pass system contracts are to be renewed in 2017 and it was established that the tender documentation includes the requirement for compliance with the DPA. Examination of the documentation verified the existence of sections on Data Protection, guidance with respect to Data Retention, and Information Disposal.
21. It is understood that Data Classification was considered by London Councils in 2014 after the Government Security Classification changes which came into force during 2014. The Corporate Governance Manager advised Audit that the London Councils concluded that 'virtually all our data would be in the same category' and as a result further classification was ruled out, and this decision remains in force today. This decision was not documented at the time and consideration should be given to officially documenting this data classification decision to provide on-going clarity.

Priority	Issue	Risk
Green	The 2014 decision to rule out further classification of the London Councils data is not recorded which informs of the work already completed and the decision made and approved.	There is a risk that another data classification exercise is unnecessarily performed due to lack of clarity, resulting in a waste of valuable resources.
Recommendation 2: <ul style="list-style-type: none"> Document the decision as part of the Information Governance Improvement 		



Programme.

Management Response and Action Plan

This will be addressed within the annual Information Governance report to CMB.

Responsibility: Emily Salinger, Corporate Governance Manager

Target Implementation Date: November 2017

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

22. Information sharing is managed through Data Sharing Agreements (DSA). Audit evidenced the overarching DSA and was informed that further data sharing agreements/protocols are created to address specific needs not covered by the overarching agreement. The requirements under which a DSA would be required were found to be clearly defined and documented in the Information Security Policy.

23. Audit was informed of the intention by London Councils to incorporate GDPR into organisational processes by the May 2018 deadline. Progress toward this was evidenced, with London Councils having undertaken the initial stage (12 steps to GDPR preparation) provided by the UK Information Commissioner's Office (ICO), and reported on the London Councils position in relation to these in the October 2016 CMB meeting. The GDPR implementation plan was found to include monitoring / reporting requirements in line with the Information Governance Improvement Programme.

Staff Training

24. Audit established that London Councils has provided regular training to London Councils staff since 2014 with the latest training completed by all London Councils between January and March of 2017, and during 2015/16 the training was supplemented with an online offering.

25. The 2017 completed training sessions clearly demonstrated to Audit that consideration had been given to London Council job roles and the degree of information security knowledge required. The training consisted of two offerings; a two hour session and a three hour session. The lengthier training sessions were



undertaken by London Councils teams operating with systems which hold personal/confidential data. A training schedule and signed register of attendance demonstrated that all staff had been trained.

- 26.** London Councils does not have a training policy or mandatory training courses and therefore no guidance on frequency of refresher/repeat training. Audit was advised that previously the training needs were identified through the appraisal process for each individual. As part of the Audit discussions the Corporate Governance Manager informed Audit that a general commitment to regular training will be included in next Information Security Policy review (as part of the GDPR and Information Governance Improvement Programme); thus no recommendation has been made at this time.
- 27.** A new approach to training is being considered by the Information Governance Manager and a report is to go to CMB recommending a new training plan to cover the next year to eighteen months. The proposed training offering meets ISO/IEC 27000 standards which is designed to keep information assets secure. The training also benefits from the ability of customisation to include London Councils policy and procedures, thus making the training relevant.
- 28.** Examples of other efforts to maintain awareness of information security were found to be present, with London Councils emailing training session slides and placing them on the London Council Intranet. A staff newsletter (known as Elsie) is also used to include information security related items and the March 2017 issue verified this with a section on 'Information matters' and an article on how to identify phishing/spoofing emails.

Data Disposal

- 29.** Audit testing established that the Information Security policy contains guidance on 'Secure Disposal of Information', which directs staff to use confidential waste bins for documents containing personal protected data. Guidance on disposal Electronic media data destruction requirements are included, and it is noted that a key element for electronic data destruction is mentioned which states that appropriate overwriting of electronic media should be performed prior to disposal (which reduces the risk of data reconstruction).

- 30.** An external company, First Mile, provides data destruction services to London Councils. Relevant accreditations and current certificates were provided for assurance of their secure standards and practices. Audit established that an appropriately signed contract in the form of an annual Waste Transfer Note (WTN) is in place, in accordance with government code of practice on safe waste management. This WTN permits the transfer data waste from London Councils to First Mile. Further current copies of certificates (BS EN 15713, ISO:9001:2008 and ISO 14001:2004) in support of secure collection and managed destruction of confidential material were provided to demonstrate that industry standards are in operation by First Mile.
- 31.** Reliance is placed on First Mile to appropriately destroy data held in either paper or electronic form. First Mile provides a return form as proof that destruction process has been completed for every batch of items. A sample of completed forms were evidenced; however, a comprehensive list or register was not available, and none were evidenced for electronic hardware. Consideration should be given to maintaining a register of items (or batches) handed over for destruction alongside a record of the 'proof of destruction' return forms as verification that the destruction process has been duly completed for every item or batch of items.

Priority	Issue	Risk
Amber	A comprehensive register of items (or batches) sent for disposal and the corresponding proof of disposal forms was not available.	Where disposals are not fully documented, there is possibility risk that items are not fully accounted for and may not be properly disposed of. This may result in a risk of data loss which may result in reputational damage and monetary fines imposed by the Information Commissioner's office as part of the Data Protection Act.
Recommendation 3: Introduce and maintain a disposal register which details items sent for disposal and accompanying proof of disposal to ensure all items are suitably disposed.		



Management Response and Action Plan

All our confidential recycling sacks are taken to First Miles' BS15713-accredited secure destruction facility where they are securely shredded and pulped. First Mile will provide a certificate of destruction for every sack or hard disk despatched. An internal register of collected items will now be maintained by the Facilities Team and First Mile will commence the issuing of destruction certificates to London Councils with immediate effect.

Responsibility: Roy Stanley, ICT & Facilities Manager

Target Implementation Date: November 2017

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

Data Access limitations

- 32.** Audit established that media ports (USB/CD drives) are accessible to all staff, and whilst the LC policy informs staff to encrypt portable media, the encryption is not system enforced. The ICO advises that 'Organisations should consider encryption alongside other technical and organisational measures, taking into account the benefits and risks that it can offer', and a recommendation has been made to consider this

<u>Priority</u>	<u>Issue</u>	<u>Risk</u>
Amber	Personal/sensitive data such as freedom pass information can be copied in unencrypted form onto removable media and carried out of the premises.	Where the use of unencrypted portable media devices is not enforced, there is a risk of loss or theft of unencrypted data which can result in substantial ICO fines and reputational damage.

Recommendation 4:

Enforce automatic encryption prior to permitting copy of data onto portable media.

Management Response and Action Plan

London Councils are examining the locking down of all USB ports on all desktop pc's to restrict the use of USB drives, mobile phone charging/data exchange and external drive use. Microsoft OneDrive for Business will be the new proposed method for securely transferring data between devices and platforms. London Councils will



be working with Agilisys to test the use of permitted input devices such as keyboards, mice and output devices such as printers and scanners within its existing operating systems and hardware.

Responsibility: Roy Stanley, ICT & Facilities Manager

Target Implementation Date: March 2018

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33. Examination of password entry requirements to the London Councils network established that the password controls did not follow standard industry practice with respect to password length at commencement of the audit (for example minimum eight characters for password length was not enforced); however, as part of the audit findings London Councils implemented the required changes and provided evidence to demonstrate this.

34. Password controls in operation for the Taxicard and Freedom Pass system were examined against standard industry practice and found to be less than standard industry practice. Audit has been informed that the new system development, which is to be implemented October 2017, will include strengthened password controls in line with industry standards; however, a recommendation was agreed to be included to ensure this is implemented.

<u>Priority</u>	<u>Issue</u>	<u>Risk</u>
<u>Amber</u>	The Taxicard and Freedom Pass systems which hold critical and sensitive data do not conform to minimum best practice standards for password controls with password set to be a minimum of six characters rather than the eight recommended.	Poor password controls increases network vulnerability and potential of unauthorised access to the London Councils network.
<u>Recommendation 5:</u> Implement password controls in accordance with the standard industry practice.		
Management Response and Action Plan		



Management intend to implement password controls in accordance with standard industry practice. This action will be taken upon the launch of the new system which is likely to be in March / April 2018.

Responsibility: Stephen Boon, Chief Contracts Officer

Target Implementation Date: April 2018

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

- 35.** The Taxicard and Freedom Pass systems provider is ESP Systex and both systems are hosted externally. ESP Systex provided an Information Security document as evidence of data security measures that are in operation. The document states that the systems are implemented on the Microsoft Azure cloud platform, which is understood to have integrated security features, such as, secure identity, which enable user access control to protect business and personal information.
- 36.** Remote access to London Councils network is permitted; however, a previous Internal Audit established that suitable two factor authentication was not in operation. This has been implemented in April 2017, with all users required to sign in using security fobs and network user credential (user name and network password) to gain access.

APPENDIX 1: AUDIT DEFINITIONS AND RESPONSIBILITIES

Assurance levels

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	system objectives at risk and result in error, fraud, loss or reputational damage.
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Recommendation Categorisations

Priority	Definition	Timescale for taking action
Red - 1	A serious issue for the attention of senior management and reporting to the appropriate Committee Chairman. Action should be initiated immediately to manage risk to an acceptable level	Less than 1 month or more urgently as appropriate
Amber - 2	A key issue where management action is required to manage exposure to significant risks, action should be initiated quickly to mitigate the risk.	Less than 3 months
Green - 3	An issue where action is desirable and should help to strengthen the overall control environment and mitigate risk.	<u>Less than 6 months</u>

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APPENDIX 2 : Systems and DPA principles

TABLE of Taxicard and Freedom Pass Systems and DPA principles

DPA Principles	TAXICARD	FREEDOM PASS
1 Personal information must be fairly and lawfully processed	The ESP Systex contract contains a Data Protection section which specifies the need for compliance with DPA 1998.	<p>The ESP Systex contract contains a Data Protection section which specifies the need for compliance with DPA 1998.</p> <p>This current contract with Transport For London Data Sharing Agreement details data privacy and Data Protection requirements.</p> <p>Data Sharing Agreement states permitted use of data, data loss, means of transfer of data using an online portal and restricting access to Freedom Pass data only.</p>
2 Personal information must be processed for limited purposes.	This cannot be verified however within the contract there is a section on data protection (section 13.4) which clearly states compliance to DPA Act in respect of personal data held, processed and transmitted.	This is in line with Taxicard system.
3 Personal Information must be adequate and not excessive	List of data fields held within the system demonstrates that the data held is limited to what is relevant. Only data fields ETHNICITY and NATIONAL INSURANCE NUMBER (NI) seemed excessive but justification was provided on its inclusion. Ethnicity is informed to be recorded to determine equal access is in operation (under the 'Promoting Equalities' requirement) and the NI is kept for fraud prevention. Both are optional fields and require agreement by applicant who would supply this information.	<p>List of fields provided demonstrate data held is limited to what is relevant.</p> <p>NI Number and ethnicity seemed excessive – see Taxicard justification as it applied here too.</p>
4 Information is	Reliance on accuracy of the data lies with the applicant. On application form the data	On the application form there is a statement that says 'I declare the information about me on this form is

accurate and up to date	<p>accuracy declaration states ' I declare that the information given on this form is true in all respects' Any changes are required to be informed to the local council.</p> <p>Further check is done for Taxicard where a pass is not used for 2 years.</p> <p>At renewal time and mid-term i.e. at 2.5 years and 5 years the data is checked and also a check of deceased pass holders done through National Fraud initiative twice a year .</p> <p>Also updates done to system where Royal mail returns letter as undelivered.</p>	<p>correct and complete'. Any changes to information are the responsibility of the individual who then has to provide proof to verify changes such as an address change required for example a recent utility bill.</p> <p>At renewal time and mid-term i.e. at 2.5 years and 5 years the data is checked and also a check of deceased pass holders done through National Fraud initiative twice a year</p> <p>Also updates done to system where Royal mail returns letter as undelivered.</p>
5 Personal Information must not be kept longer than necessary	At present this data is not removed but as part of Information Governance Programme both these systems were reviewed and a data retention schedule was drawn up which is to be used to remove older data and maintain removal on line with data retention	At present this data is not removed but as part of Information Governance Programme both these systems were reviewed and a data retention schedule was drawn up which is to be used to remove older data and maintain removal on line with data retention
6 Personal Information must be processed in line with subject's rights.	<p>Application form states data is used for the TC scheme</p> <p>Application form states Data Protection and use of data for scheme,</p> <ul style="list-style-type: none"> to comply with legal obligations, data will not go to marketing companies where permitted under DPA by 3rd party to assess eligibility such as mobility assessments. 	<p>Application form states</p> <ul style="list-style-type: none"> data will not go to marketing companies and only shared with other organisation (such as law enforcement agencies, Transport for London, Government departments, other local authorities etc) to provide the service where it is legal to do so.
7 Personal	Contract includes data protection –ESP systex has provided an information security document	Contract includes data protection –ESP systex has provided an information

information must be secure	detailing their measures to keep data secure.	security document detailing their measures to keep data secure. Transport For London contract shows data sharing agreements. Data loss – information reported to IAR for LC and for TFL it is reported to 'Privacy and Data Protection Team'.
8 Personal information must NOT be transferred to other countries without adequate protection	Data cannot go outside of the EEA as part of the DPA requirements and LC confirmed that this data does not go outside of the UK. Done contractually in section 13.9.2	Data cannot go outside of the EEA as part of the DPA requirements and LC confirmed that this data does not go outside of the UK. Done contractually section 13.9.2

Audit Committee

Treasury Management Update

Item no: 07

Report by: David Sanni **Job title:** Head of Financial Accounting
Date: 22 March 2018
Contact Officer: David Sanni
Telephone: 020 7934 9704 **Email:** david.sanni@londoncouncils.gov.uk

Summary

This report provides the Audit Committee 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 are covered by the City of London's treasury management strategy as they are aggregated with the City of London's funds for investment purposes.

It was agreed at the meeting of the Audit Committee in September 2009, that the Committee will receive annual reports on the City of London's treasury management activities. The City of London's Treasury Management Strategy Statement and Annual Investment Strategy for 2018/19 was presented to their Financial Investment Board on 1 February 2018 for approval and will then be submitted to the Court of Common Council for formal adoption.

Recommendations The Audit Committee is asked:

- To note the City of London's Treasury Management Strategy Statement and Annual Investment Strategy for 2018/19 which can be found at Appendix A.
-

Background

1. London Councils treasury management procedures are carried out by the City of London under the terms of the service level agreement for financial and support services. London Councils' cash balances are pooled with the City of London's funds for investment purposes. It was agreed at the meeting of the Audit Committee in September 2009, that the Committee will receive annual reports on the City of London's treasury management activities to comment on for feedback to the Chamberlain of the City of London.

City of London's Treasury Management Strategy Statement and Annual Investment Strategy for 2018/19

2. The City of London's Treasury Management Strategy Statement and Annual Investment Strategy for 2018/19 was presented to their Financial Investment Board on 1 February 2018 for approval and will then be submitted to the Court of Common Councils for formal adoption.
3. The City of London adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management which was revised in November 2009 following the problems with Icelandic Banks. The primary requirements of the revised code implemented by the City of London are the :
 - creation and maintenance of a treasury management policy statement which sets out the policies, objectives and approach to risk management of its treasury management activities.
 - creation and maintenance of suitable treasury management practices which set out the manner in which the City of London will seek to achieve those policies and objectives and prescribe how it will manage and control those activities.
 - receipt by the full Court of Common Council of reports on treasury management policies, practices and activities, including as a minimum an annual strategy and plan in advance of the year, a mid-year review and an annual report covering activities during the previous year.
 - delegation by the Court of Common Council of responsibilities for implementing and regular monitoring of treasury management policies and practices and for the execution and administration of treasury management decisions to the Chamberlain.
 - delegation by the Court of Common Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For the City the delegated body is the Audit and Risk Management Committee.
4. A full copy of the Treasury Management Strategy Statement and Annual Investment Strategy for 2018/19 report can be found at Appendix A.
5. The City of London provide London Councils with an indemnity against potential future losses of cash balances in the event of any losses incurred by the City itself. The City charges a premium of two basis points (0.02%) of the average balance of funds invested on behalf of third parties as compensation for taking on the risk of loss of capital and for

providing such an indemnity. If the annual charge was applied to London Councils current average cash balance for 2017/18 of £16.71 million it would amount to £3,342.

6. As with previous years, the City of London's Creditworthiness policy is inconsistent with the approach suggested by CIPFA of using the lowest rating from all three main rating agencies to determine creditworthy counterparties (as detailed on the second paragraph of section 7.2 of Appendix A). Instead they use a risk weighted scoring system provided by the City's treasury adviser, Link Asset Services.
7. The key areas of the Treasury Management Strategy Statement and Annual Investment Strategy are highlighted in the summary of the Chamberlain's cover report which is included at the first page of Appendix A.
8. Overall, the Director of Corporate Resources is satisfied that the City's treasury management function is run in a prudent manner and takes comfort from the indemnity against future capital losses which safeguards London Councils' funds.

Financial Implications for London Councils

As detailed in the body of the report.

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendices

Appendix A - City of London's Treasury Management Strategy Statement and Annual Investment Strategy for 2018/19

Background Papers

Audit Committee working file 2017/18

Committee:	Date:
Financial Investment Board	1 February 2018
Subject: Treasury Management Strategy Statement and Annual Investment Strategy 2018/19	Public
Report of: The Chamberlain	For Decision
Report author: Tom Broughton– Chamberlain’s Department	

Summary

The attached document sets out the City’s Treasury Management Strategy Statement and Annual Investment Strategy for 2018/19. The document includes the various Prudential Indicators required to be set for the City Fund to ensure that the City’s capital investment plans are affordable, prudent and sustainable. The main proposals within the document are incorporated within the separate report entitled “City Fund - 2018 Budget Report” being considered by the Finance Committee on 20 February 2018 and by the Court of Common Council on 8 March 2018.

The only change to the Treasury Management Strategy and Annual Investment Statement for 2018/19 is to the Non-Specified Investments (Appendix 4) where, following discussions with the Chairman and Deputy Chairman of the Financial Investment Board, Short Dated Bond Funds have been included. It should be noted that Ultra Short Dated Bond Funds were previously classified under Money Market Funds but now must be classified separately; the City currently has three such funds outlined in Appendix 5.

The key areas to highlight are:

- As at 31 December 2017, the City had cash balances totalling some £873.4m. The majority of balances are held for payment to third parties; they are either restricted reserves, or will be drawdown over the coming years to fund various projects, such as the Museum of London. A 10 year cash flow forecast is being completed at the request of Resource Allocation Sub-Committee and we will therefore review the appropriate balances to be maintained in light of that forecast.
- In assessing the creditworthiness of prospective counter-parties the City uses a risk weighted scoring system rather than just using the lowest rating from the credit rating agencies (section 7.2). This is unchanged from previous years.
- It is proposed that the City continues to be prepared to lend monies for up to three years’ duration based on risk assessments for each opportunity undertaken by Treasury Officers and discussed with the Chamberlain. As the current returns on deposits for 2 and 3 years are considered insufficient, no new long-term deposits have been made (sections 7.4 & 7.5).
- In consultation with its Treasury Management advisors, Link Asset Services, (previously known as Capita Asset Services) the City is in the process of selecting one or more Ultra Short Dated/Short Dated Bond Fund as an additional mandate for its cash balances.
- It is anticipated that the City will remain debt free during 2018/19 but it should be noted that is possible that there may be a borrowing requirement in future years, depending on the funding strategy for the Museum of London project (section 6). It is unlikely that there will be a borrowing requirement before 2020/2021 and the Treasury Management Strategy Statement and Annual Investment Strategy will be amended when necessary.

- New European Money Market Fund regulations are due to come into effect from 21 July 2018. There are currently two broad categories of Money Market Funds (MMFs): short-term MMFs and standard MMFs. Under existing regulations, the standard MMF can only be run as a variable net asset value (VNAV) fund, while the short-term MMF can be run as either a constant net asset value (CNAV) or VNAV fund. The new regulations introduce a couple of changes to the short-term MMF category (Appendix 4).
- A Minimal Revenue Provision (MRP) Policy Statement now must be included as the City makes use of internal borrowing to fund Capital expenditure. The MRP Policy statement for 2017/18 is included at Appendix 3 and will be updated for 2018/19 and included in the “City Fund – 2018 Budget Report” for the February Finance Committee and March Court of Common Council.
- Following the introduction of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) from 3 January 2018, financial service institutions (fund managers, advisors, consultants, banks etc.) must automatically categorise local authority Treasury Management Functions as “retail clients”. The City of London, acting as Treasury Managers, has successfully opted up to “elective professional client” status for all relevant institutions to maintain all previously existing investment relationships.
- Members are asked to consider whether a short training event should be run for the Board which could be advantageous and would be considered to be best practice.

The main changes to the document from last year’s version are highlighted in yellow.

Recommendations

It is recommended that:

- (i) the Financial Investment Board reviews and approves the attached Treasury Management Strategy Statement and Annual Investment Strategy for 2018/19, and submits it to the Court for formal adoption.
- (ii) A short training event be organised for the Board.

Annex

Treasury Management Strategy Statement and Annual Investment Strategy 2018/19

Tom Broughton

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TREASURY MANAGEMENT STRATEGY STATEMENT

AND

ANNUAL INVESTMENT STRATEGY

2018/19

Treasury Management Strategy Statement and Annual Investment Strategy 2018/19

1. Introduction

1.1. Background

The City of London Corporation (the City) is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the City's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of capital expenditure plans. The City is not anticipating any borrowing at this time.

1.2. The Treasury Management Policy Statement

The City defines its treasury management activities as:

The management of the organisation's investments and cash flows, its banking, money market and capital market transaction; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

The City regards the security of its financial investments through the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

The City acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

1.3. CIPFA Requirements

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by the Court of Common Council (the Court) on 3 March 2010:

The primary requirements of the Code are as follows:

- (i) The City of London Corporation will create and maintain, as the cornerstones for effective treasury management:
 - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
 - Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- (ii) This organisation (i.e. the Court of Common Council) will receive reports on its treasury management policies, practices and activities, including as a

minimum an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

- (iii) The Court of Common Council delegates responsibility for the implementation and regular monitoring of its treasury management policies to the Finance Committee and the Financial Investment Board; the execution and administration of treasury management decisions is delegated to the Chamberlain, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.
- (iv) The Court of Common Council nominates the Audit and Risk Management Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

1.4. Treasury Management Strategy for 2018/19

The Local Government Act 2003 (the Act) and supporting regulations require the City to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the City's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Court of Common Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act) (included in section 7 of this report); this sets out the City's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The suggested strategy for 2018/19 in respect of the required aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the City's treasury adviser, [Link](#) Asset Services, Treasury Solutions.

The strategy covers:

- the current treasury position
- treasury indicators which limit the treasury risk and activities of the City
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers.

These elements cover the requirements of the local Government Act 2003, the CIPFA Prudential Code, the CLG MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

1.5. Balanced Budget Requirement

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the City to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

1. increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
2. any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the City for the foreseeable future.

2. Treasury Limits for 2017/18 to 2019/20

It is a statutory duty under Section 3 (1) of the Local Government Act and supporting regulations, for the City to determine and keep under review how much it can afford to borrow. The amount so determined is termed the “Affordable Borrowing Limit”. In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

The City must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is ‘acceptable’.

Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for inclusion in corporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years; details of the Authorised Limit can be found in Appendix 3.

3. Current Portfolio Position

The City’s treasury portfolio position at 31 December 2017 comprised:

Table 1		Principal		Ave. rate
		£m	£m	%
Fixed rate funding	PWLB	0	0	-
	Market	0		
Variable rate funding	PWLB	0	0	-
	Market	0	0	-
Other long term liabilities			0	
Gross debt			0	-
Total investments			873.4	0.56
Net Investments			873.4	

4. Treasury Indicators for 2018/19 – 2020/21

Treasury Indicators (as set out in Appendix 3) are relevant for the purposes of setting an integrated treasury management strategy.

The City is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The original 2001 Code was adopted by the Court of Common Council on 9 March 2004 and the revised 2009 Code was adopted on 3 March 2010.

5. Prospects for Interest Rates

The City of London has appointed Link Asset Services (Link) as its treasury advisor and part of their service is to assist the City to formulate a view on interest rates. Appendix 1 draws together a number of forecasts for both short term (Bank Rate) and longer term interest rates and Appendix 2 provides a more detailed economic commentary. The following table and accompanying text below gives the Link central view.

	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)			
		5 year	10 years	25 year	50 year
Dec 2017	0.50	1.50	2.10	2.80	2.50
Mar 2018	0.50	1.60	2.20	2.90	2.60
Jun 2018	0.50	1.60	2.30	3.00	2.70
Sep 2018	0.50	1.70	2.40	3.00	2.80
Dec 2018	0.75	1.80	2.40	3.10	2.90
Mar 2019	0.75	1.80	2.50	3.10	2.90
Jun 2019	0.75	1.90	2.60	3.20	3.00
Sep 2019	0.75	1.90	2.60	3.20	3.00
Dec 2019	1.00	2.00	2.70	3.30	3.10
Mar 2020	1.00	2.10	2.70	3.40	3.20
Jun 2020	1.00	2.10	2.80	3.50	3.30
Sep 2020	1.25	2.20	2.90	3.50	3.30
Dec 2020	1.25	2.30	2.90	3.60	3.40
Mar 2021	1.25	2.30	3.00	3.60	3.40

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed. has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The

Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- The result of the October 2017 Austrian general election has now resulted in a strongly anti-immigrant coalition government. In addition, the Czech ANO party became the largest party in the October 2017 general election on a platform of being strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

Investment and borrowing rates

- Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.
- Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Since then, borrowing rates have eased back again somewhat. Apart from that, there has been little general trend in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;
- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

6. Borrowing Strategy

It is anticipated that there will be no capital borrowings required during 2018/19.

7. Annual Investment Strategy

7.1. Investment Policy

The City of London's investment policy will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectorial Guidance Notes ("the CIPFA TM Code"). The City's investment priorities are:

- (a) security; and
- (b) liquidity.

The City will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of the City is low in order to give priority to security of its investments.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and the City will not engage in such activity.

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the City applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration, the City will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investment instruments identified for use in the financial year are listed in Appendix 4 under the ‘specified’ and ‘non-specified’ investments categories.

7.2. Creditworthiness policy

The City uses the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from all three rating agencies - Fitch, Moody's and Standard & Poor's. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- Credit Default Swap spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries.

The City will not specifically follow the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties, but will have regard to the approach adopted by Link's creditworthiness service which incorporates ratings from all three agencies and uses a risk weighted scoring system, thereby not giving undue preponderance to just one agency's ratings.

All credit ratings will be monitored on a daily basis. The City is alerted to credit warnings and changes to ratings of all three agencies through its use of the Link creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the City's minimum criteria, its further use as a possible investment will be withdrawn immediately.
- In addition to the use of Credit Ratings the City will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution and possible removal from the City's lending list.

Sole reliance will not be placed on the use of this external service. In addition the City will also use market data and market information, information from any external source and credit ratings.

Regular meetings are held involving the Chamberlain, the Deputy Chamberlain, Corporate Treasurer and Members of the Treasury Team, when the suitability of prospective counterparties and the optimum duration for lending is discussed and agreed.

The primary principle governing the City's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the City will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the City's prudential indicators covering the maximum principal sums invested.

The Chamberlain will maintain a counterparty list in compliance with the following criteria and will revise these criteria and submit them to the Financial Investment Board for approval as necessary. These criteria are separate to those which determine which types of investment instruments are classified as either specified or non-specified as it provides an overall pool of counterparties considered high quality which the City may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of a possible longer term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty would result in a temporary suspension, which will be reviewed in light of market conditions.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) are:

- Banks 1 – good credit quality – the City will only use banks which:
 - (i) are UK banks; and/or
 - (ii) are non-UK and domiciled in a country which has a minimum sovereign long-term rating of AAA (Fitch rating)and have, as a minimum the following Fitch, credit rating:

(i) Short-term	F1
(ii) Long-term	A
- Banks 2 – Part Nationalised UK banks –Royal Bank of Scotland. This bank can be included if it continues to be part nationalised, or it meets the ratings in Banks 1 above.

- Banks 3 – The City's own banker (Lloyds Banking Group) for transactional purposes if the bank falls below the above criteria, although in this case, balances will be minimised in both monetary size and duration.
- Bank subsidiary and treasury operation - The City will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above. This criteria is particularly relevant to City Re Limited, the City's Captive insurance company, which deposits funds with bank subsidiaries in Guernsey.
- Building Societies – The City may use all societies which:
 - (i) have assets in excess of £9bn; or
 - (ii) meet the ratings for banks outlined above
- Money Market Funds CNAV – with minimum credit ratings of AAA/mmf
- Money Market Funds (MMFs) LVNAV – with minimum credit ratings of AAA/mmf
- Money Market Funds (MMFs) VNAV – with minimum credit ratings of AAA/mmf
- Ultra-Short Dated Bond Funds with a credit rating of at least AAA/f (previously referred to as Enhanced Cash Plus Funds)
- Short Dated Bond Fund – These funds typically do not obtain their own standalone credit rating. The funds will invest in a wide array of investment grade instruments, The City will undertake all necessary due diligence to ensure a minimum credit quality across the funds underlying composition is set out within initial Investment Manager Agreements and actively monitor the on-going credit quality of any fund invested.
- UK Government – including government gilts and the debt management agency deposit facility.
- Local authorities

A limit of £300m will be applied to the use of non-specified investments.

Use of additional information other than credit ratings. Additional requirements under the Code require the City to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties

Time and monetary limits applying to investments. The time and monetary limits for institutions on the City's counterparty list are set out in Appendix 5 as at 31st December 2017. The City may add managers to this list as appropriate.

7.3. Country limits

The City has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA (Fitch) or equivalent. The counterparty list, as shown in Appendix 6, will be added to or deducted from by officers should individual country ratings change in accordance with this policy. It is proposed that the UK (which is currently rated as AA) will be excluded from this stipulated minimum sovereign rating requirement.

Investment Strategy

- 7.4. **In-house funds:** The City's in-house managed funds are both cash-flow derived and also represented by core balances which can be made available for investment over a 2-3 year period. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). The City does not currently have any term deposits which span the 2018/19 financial year.
- 7.5. **Investment returns expectations:** Bank Rate is forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are as follows:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

Link consider that the overall balance of risks to these forecasts is currently probably tilted towards the downside in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back. On the other hand, should the pace of growth quicken and / or forecasts for increases in inflation rise, upside risk may increase i.e. Bank Rate increases occur earlier and / or at a quicker pace.

The Chamberlain and his Treasury Officers consider that there may be a slow increase in base rate beginning in either late 2018 or early 2019, at the earliest. Currently available interest rates over the longer term (2 to 3 years) are not significantly above 0.75% to 1.0% and are therefore considered insufficient to place funds on 2 or 3 year deposit at present.

For 2017/18 the City has budgeted for an average investment return of 0.50% on investments placed during the financial year. Financial forecasts for the period 2018/19 include interest earnings based on a weighted average investment return of 0.65%.

In managing its cash as effectively as possible, the City aims to benefit from the highest available interest rates for the types of investment vehicles invested in, whilst ensuring that it keeps within its credit criteria as set out in this document. Currently, the City invests in a call account with Lloyds Bank, money market funds, short-dated deposits (three months to one year) and a 95 day notice account. These investments are relatively liquid and therefore as and when interest rates improve balances can be invested for longer periods.

7.6. Investment Treasury Indicator and Limit

Total principal funds invested for greater than 365 days are subject to a limit, set with regard to the City's liquidity requirements and to reduce the need for an early sale of an investment, and are based on the availability of funds after each year end.

The Board is asked to approve the treasury indicator and limit:

Maximum principal sums invested for more than 365 days (up to three years)			
	2018/19 £M	2019/20 £M	2020/21 £M

Principal sums invested >365 days	300	300	300
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7.7. **End of year investment report**

At the end of the financial year, the City will report on its investment activity as part of its Annual Treasury Report.

7.8. External fund managers

A proportion of the City's funds, amounting to £206.9m as at 31 December 2017, are externally managed on a discretionary basis by Standard Life Aberdeen plc, Deutsche Asset Wealth Management, Invesco Fund Managers Ltd, Federated UK LLP, CCLA Investment Management Ltd and Payden Global Funds Plc. The City's external fund managers will comply with the Annual Investment Strategy, and the agreements between the City and the fund managers additionally stipulate guidelines and duration and other limits in order to contain and control risk. Investments made by the Fund Managers include a diversified portfolio of very high quality sterling-dominated investments, including gilts, supranationals, bank and corporate bonds, as well as other money market securities. The individual investments held within the Funds are monitored on a regular basis by Treasury staff.

The credit criteria to be used for the selection of the Money Market fund manager(s) is based on Fitch Ratings and is AAA/mmf. The Ultra-Short Dated Bond fund managers (including Payden Sterling Reserve Fund, Federated Sterling Cash Plus Fund and Standard Life Investments Short Duration Managed Liquidity Fund) are all rated by Standard and Poor's as AAA/f.

Any newly appointed Short Dated Bond fund manager will be appointed on a distinct Investment Manager Agreement, under which the City will outline the minimum credit criteria to be maintained across the underlying fund composition. The funds are expected to offer significant diversification by being invested in a wide range of investment grade instruments, rated BBB and above and limiting exposure to any one debt issuer or issuance.

7.9. Policy on the use of external service providers

The City uses Link Asset Services, Treasury Solutions as its external treasury management advisers.

The City recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon its external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The City will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

7.10. Scheme of Delegation

Please see Appendix 7.

7.11. Role of the Section 151 officer

Please see Appendix 8.

7.12. Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. The training needs of members and treasury management officers are periodically reviewed.

APPENDICES

1. Interest Rate Forecasts 2018-2021
2. Link Asset Services view on Economic Background
3. Treasury Indicators 2018/19 – 2020/21 and Minimum Revenue Provision Statement
4. Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management
5. Current Approved Counterparties
6. Approved Countries for Investments
7. Treasury Management Scheme of Delegation
8. The Treasury Management Role of the Section 151 Officer

LINK INTEREST RATE FORECASTS 2018 - 2021

Link Asset Services Interest Rate View													
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
3 Month LIBID	0.40%	0.40%	0.40%	0.60%	0.60%	0.60%	0.70%	0.90%	0.90%	1.00%	1.20%	1.20%	1.20%
6 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%
12 Month LIBID	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.60%
5yr PWLB Rate	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB Rate	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB Rate	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
Bank Rate													
Link Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
Capital Economics	0.50%	0.75%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.00%	2.00%	2.25%	2.25%	-
5yr PWLB Rate													
Link Asset Services	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
Capital Economics	1.70%	1.90%	2.10%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.65%	2.65%	2.90%	-
10yr PWLB Rate													
Link Asset Services	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
Capital Economics	2.20%	2.40%	2.60%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	3.05%	3.05%	3.30%	-
25yr PWLB Rate													
Link Asset Services	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.60%	2.90%	3.10%	3.30%	3.30%	3.30%	3.35%	3.35%	3.35%	3.60%	3.60%	3.80%	-
50yr PWLB Rate													
Link Asset Services	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

Note: The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective since 1st November 2012. The Bank of England base rate was increased from 0.25% to 0.50% on 2 November 2017.

LINK ASSET SERVICES VIEW ON ECONOMIC BACKGROUND

GLOBAL OUTLOOK. World growth looks to be on an encouraging trend of stronger performance, rising earnings and falling levels of unemployment. In October, the IMF upgraded its forecast for world growth from 3.2% to 3.6% for 2017 and 3.7% for 2018.

In addition, **inflation prospects are generally muted** and it is particularly notable that **wage inflation** has been subdued despite unemployment falling to historically very low levels in the UK and US. This has led to many comments by economists that there appears to have been a fundamental shift downwards in the Phillips curve (this plots the correlation between levels of unemployment and inflation e.g. if the former is low the latter tends to be high). In turn, this raises the question of what has caused this? The likely answers probably lay in a combination of a shift towards flexible working, self-employment, falling union membership and a consequent reduction in union power and influence in the economy, and increasing globalisation and specialisation of individual countries, which has meant that labour in one country is in competition with labour in other countries which may be offering lower wage rates, increased productivity or a combination of the two. In addition, technology is probably also exerting downward pressure on wage rates and this is likely to grow with an accelerating movement towards automation, robots and artificial intelligence, leading to many repetitive tasks being taken over by machines or computers. Indeed, this is now being labelled as being the start of the **fourth industrial revolution**.

KEY RISKS - central bank monetary policy measures

Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as Quantitative Easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation is coming towards its close and a new period has already started in the US, and more recently in the UK, on reversing those measures i.e. by raising central rates and (for the US) reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of an on-going reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this then also encouraged investors into a search for yield and into investing in riskier assets such as equities. This resulted in bond markets and equity market prices both rising to historically high valuation levels simultaneously. This, therefore, makes both asset categories vulnerable to a sharp correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery by taking too rapid and too strong action, or, alternatively, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.**

There is also a potential key question over whether economic growth has become too dependent on strong central bank stimulus and whether it will maintain its momentum against a backdrop of rising interest rates and the reversal of QE. In the UK, a key vulnerability is the **low level of productivity growth**, which may be the main driver for increases in wages; and **decreasing consumer disposable income**, which is important in the context of consumer expenditure primarily underpinning UK GDP growth.

A further question that has come to the fore is whether **an inflation target for central banks of 2%**, is now realistic given the shift down in inflation pressures from internally generated inflation, (i.e. wage inflation feeding through into the national economy), given the above mentioned shift down in the Phillips curve.

- Some economists favour a shift to a **lower inflation target of 1%** to emphasise the need to keep the lid on inflation. Alternatively, it is possible that a central bank could simply 'look through' tepid wage inflation, (i.e. ignore the overall 2% inflation target), in order to take action in raising rates sooner than might otherwise be expected.
- However, other economists would argue for a **shift UP in the inflation target to 3%** in order to ensure that central banks place the emphasis on maintaining economic growth through adopting a slower pace of withdrawal of stimulus.
- In addition, there is a strong argument that central banks should **target financial market stability**. As mentioned previously, bond markets and equity markets could be vulnerable to a sharp correction. There has been much commentary, that since 2008, QE has caused massive distortions, imbalances and bubbles in asset prices, both financial and non-financial. Consequently, there are widespread concerns at the potential for such bubbles to be burst by exuberant central bank action. On the other hand, too slow or weak action would allow these imbalances and distortions to continue or to even inflate them further.
- Consumer debt levels are also at historically high levels due to the prolonged period of low cost of borrowing since the financial crash. In turn, this cheap borrowing has meant that **other non-financial asset prices**, particularly house prices, have been driven up to very high levels, especially compared to income levels. Any sharp downturn in the availability of credit, or increase in the cost of credit, could potentially destabilise the housing market and generate a sharp downturn in house prices. This could then have a destabilising effect on consumer confidence, consumer expenditure and GDP growth. However, no central bank would accept that it ought to have responsibility for specifically targeting house prices.

UK. After the UK surprised on the upside with strong economic growth in 2016, **growth in 2017 has been disappointingly weak**; quarter 1 came in at only +0.3% (+1.8% y/y), quarter 2 was +0.3% (+1.5% y/y) and quarter 3 was +0.4% (+1.5% y/y). The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 80% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the **manufacturing sector** which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year while robust world growth has also been supportive. However, this sector only accounts for around 10% of GDP so expansion in this sector will have a much more muted effect on the overall GDP growth figure for the UK economy as a whole.

While the Bank of England is expected to give forward guidance to prepare financial markets for gradual changes in policy, the **Monetary Policy Committee, (MPC), meeting**

of 14 September 2017 managed to shock financial markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting. (Inflation actually came in at 3.1% in November so that may prove now to be the peak.) This marginal revision in the Bank's forecast can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment having already fallen to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that **the amount of spare capacity in the economy was significantly diminishing** towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of automation and globalisation. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a *decrease* in such globalisation pressures in the UK, and so this would cause additional inflationary pressure over the next few years.

At Its 2 November meeting, the MPC duly delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is, therefore, not quite the 'one and done' scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak services sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

It is also worth noting the **contradiction within the Bank of England** between action in 2016 and in 2017 **by two of its committees**. After the shock result of the EU referendum, the **Monetary Policy Committee (MPC)** voted in August 2016 for emergency action to cut Bank Rate from 0.50% to 0.25%, restarting £70bn of QE purchases, and also providing UK banks with £100bn of cheap financing. The aim of this was to lower borrowing costs, stimulate demand for borrowing and thereby increase expenditure and demand in the economy. The MPC felt this was necessary in order to ward off their expectation that there would be a sharp slowdown in economic growth. Instead, the economy grew robustly, although the Governor of the Bank of England strongly maintained that this was *because* the MPC took that action. However, other commentators regard this emergency action by the MPC as being proven by events to be a mistake. Then in 2017, we had the **Financial Policy Committee (FPC)** of the Bank of England taking action in June and September over its concerns that cheap borrowing rates, and easy availability of consumer credit, had resulted in too rapid a rate of growth in consumer borrowing and in the size of total borrowing, especially of unsecured borrowing. It, therefore, took punitive action to clamp down on the ability of the main banks to extend such credit! Indeed, a PWC report in October 2017 warned that credit card, car and personal loans and student debt will hit the equivalent of an average of £12,500 per household by 2020. However, averages belie wide variations in levels of debt with much higher exposure being biased towards younger people, especially the 25 -34 year old band, reflecting their lower levels of real income and asset ownership.

One key area of risk is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that **some consumers may**

have over extended their borrowing and have become complacent about interest rates going up after Bank Rate had been unchanged at 0.50% since March 2009 until falling further to 0.25% in August 2016. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate in the coming years. However, consumer borrowing is a particularly vulnerable area in terms of the Monetary Policy Committee getting the pace and strength of Bank Rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

Moreover, while there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two to three years will actually pan out.

EZ. Economic growth in the eurozone (EZ), (the UK's biggest trading partner), had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and has now gathered substantial strength and momentum thanks to this stimulus. GDP growth was 0.6% in quarter 1 (2.1% y/y), 0.7% in quarter 2 (2.4% y/y) and +0.6% in quarter 3 (2.6% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in November inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019. It has, however, announced that it will slow down its monthly QE purchases of debt from €60bn to €30bn from January 2018 and continue to at least September 2018.

USA. Growth in the American economy was notably erratic and volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1% and quarter 3 coming in at 3.3%. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.1%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with four increases in all and four increases since December 2016; the latest rise was in December 2017 and lifted the central rate to 1.25 – 1.50%. There could then be another four increases in 2018. At its September meeting, the Fed said it would start in October to gradually unwind its \$4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

JAPAN. has been struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

Brexit timetable and process

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: initial two-year negotiation period on the terms of exit. In her Florence speech in September 2017, the Prime Minister proposed a two year transitional period after March 2019.
- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy will leave the single market and tariff free trade at different times during the two year transitional period.

- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.

The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies

TREASURY INDICATORS 2018/19 – 2020/21 AND MINIMUM REVENUE PROVISION STATEMENT

TABLE 1: TREASURY MANAGEMENT INDICATORS	2016/17	2017/18	2018/19	2019/20	2020/21
	actual	probable outturn	estimate	estimate	estimate
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt -					
Borrowing	£0	£0	£0	£0	£0
other long term liabilities	£14,124	£14,006	£13,888	£13,770	£13,653
TOTAL	£14,124	£14,006	£13,888	£13,770	£13,653
Operational Boundary for external debt -					
Borrowing	£0	£0	£0	£0	£0
other long term liabilities	£14,124	£14,006	£13,888	£13,770	£13,653
TOTAL	£14,124	£14,006	£13,888	£13,770	£13,653
Actual external debt	£0	£0	£0	£0	£0
Upper limit for fixed interest rate exposure					
Expressed as either:-					
Net principal re fixed rate borrowing / investments OR:-	100%	100%	100%	100%	100%
Net interest re fixed rate borrowing / investments	100%	100%	100%	100%	100%
Upper limit for variable rate exposure					
Expressed as either:-					
Net principal re variable rate borrowing / investments OR:-	100%	100%	100%	100%	100%
Net interest re variable rate borrowing / investments	100%	100%	100%	100%	100%
Upper limit for total principal sums invested for over 364 days					
(per maturity date)	£200m	£300m	£300m	£300m	£300m

TABLE 2: Maturity structure of fixed rate borrowing during 2015/16	upper limit	lower limit
- under 12 months	0%	0%
- 12 months and within 24 months	0%	0%
- 24 months and within 5 years	0%	0%
- 5 years and within 10 years	0%	0%
- 10 years and above	0%	0%

MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT 2017/18

To ensure that capital expenditure funded by borrowing is ultimately financed, the City Fund is required to make a Minimum Revenue Provision (MRP) when the Capital Financing Requirement (CFR) is positive. A positive CFR is indicative of an underlying need to borrow.

A positive CFR will arise when capital expenditure is funded by 'borrowing', either external (loans from third parties) or internal (use of cash balances held by the City Fund). The current Budget Strategy for the City Fund does not envisage any external borrowing, subject to the funding strategy for the Museum of London relocation which has yet to be agreed.

As at 31 March 2017 the City Fund CFR is expected to become positive for the first time as a result of internal borrowing. This has arisen through funding of capital expenditure from cash received from long lease premiums which are deferred in accordance with accounting standards. This deferred income is released to revenue over the life of the leases to which it relates, typically between 125 and 250 years.

The City's MRP policy is based on a mechanism to ensure that the deferred income used to finance capital expenditure is not then 'used again' when it is released to revenue. The amount of the annual MRP is therefore to be equal to the amount of the deferred income released, resulting in an overall neutral impact on the bottom line.

The MRP liability for 2016/17 is zero. The MRP liability for 2017/18 is estimated at £896k. Subsequent year MRPs are to be equal to the deferred income to be released

TREASURY MANAGEMENT PRACTICES (TMP 1) – Credit and Counterparty Risk Management

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum ‘high’ quality criteria where appropriate.

	Minimum ‘High’ Credit Criteria	Use
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies, including part nationalised banks	Short-term F1, Long-term A,	In-house
Term deposits – banks and building societies, including part nationalised banks	Short-term F1, Long-term A,	Fund Managers
Money Market Funds CNAV (see Note below)	AAA/mmf (or equivalent)	In-house via Fund Managers
Money Market Funds LVNAV (see Note below)	AAA/mmf (or equivalent)	In-house via Fund Managers
Money Market Funds VNAV (see Note below)	AAA/mmf (or equivalent)	In-house via Fund Managers
Ultra-Short Dated Bond Fund	AAA/f (or equivalent)	In-house via Fund Managers
UK Government Gilts	UK Sovereign Rating	In-house & Fund Managers
Treasury Bills	UK Sovereign Rating	Fund Managers
Sovereign Bond issues (other than the UK government)	AAA	Fund Managers

Note:

New European Money Market Fund regulations are due to come into effect from 21 July 2018. There are currently two broad categories of Money Market Funds (MMFs): short-term MMFs and standard MMFs.

Under existing regulations, the standard MMF can only be run as a variable net asset value (VNAV) fund, while the short-term MMF can be run as either a constant net asset value (CNAV) or VNAV fund.

The new regulations introduce a couple of changes to the short-term MMF category. Until now, these have included government style funds and credit style funds. The new regulation provides optionality for investors, allowing for three new successor structures:

- A CNAV fund option, which will be permitted for “public debt” or government style funds.
- A low-volatility NAV (LVNAV) fund, which delivers a stable NAV and is also available for credit-style offerings.
- A VNAV fund option, offering a fluctuating dealing NAV, which could be a government fund or a credit fund.

All existing MMFs have to comply with the new rules by January 2019 whilst new MMF's must be in compliance by 21st July 2018.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the Specified Investment criteria. A maximum of £300m will be held in aggregate in non-specified investment.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the categories set out below.

	Minimum Credit Criteria	Use	Maximum	Maximum Maturity Period
Term deposits - other LAs (with maturities in excess of one year)	-	In-house	£25m per LA	Three years
Term deposits, including callable deposits - banks and building societies (with maturities in excess of one year)	Long-term A, Short-term F1,	In-house and Fund Managers	£300m overall	Three years
Certificates of deposits issued by banks and building societies with maturities in excess of one year	Long-term A, Short-term F1,	In-house on a buy-and-hold basis and fund managers	£50m overall	Three years
UK Government Gilts with maturities in excess of one year	AAA	In-house on a buy-and-hold basis and fund managers	£50m overall	Three years
UK Index Linked Gilts	AAA	In-house on a buy-and-hold basis and fund managers	£50m Overall	Three years
Short Dated Bond Fund	--	In-house via Fund Managers	£100m Principal Overall	n/a*

*Short Dated Bonds Funds are buy and hold investments with no pre-determined maturity at time of funding, liquidity access will be typically T+4.

APPROVED COUNTERPARTIES as at 31 DECEMBER 2017**BANKS AND THEIR WHOLLY OWNED SUBSIDIARIES**

FITCH RATINGS	LIMIT OF £100M PER GROUP (£150m for Lloyds TSB Bank)	Duration
AA- F1+	HSBC	Up to 3 years
A F1	----- BARCLAYS BANK	Up to 3 years
A+ F1	----- LLOYDS BANK incl. Bank of Scotland	Up to 3 years
BBB+ F2	----- ROYAL BANK OF SCOTLAND	Up to 3 years
A F1	----- SANTANDER UK	Up to 3 years
A F1	----- GOLDMAN SACHS INTERNATIONAL BANK	Up to 3 years

BUILDING SOCIETIES

FITCH RATINGS	GROUP	ASSETS £BN	LIMIT £M	Duration
A+ F1	Nationwide	220	120	Up to 3 years
A- F1	Yorkshire	45	20	Up to 1 year
A F1	Coventry	38	20	Up to 1 year
A- F1	Skipton	18	20	Up to 1 year
A- F1	Leeds	16	20	Up to 1 year

MONEY MARKET FUNDS

FITCH RATINGS	MONEY MARKET FUNDS Limit of £100M per fund	DURATION
AAA/mmf	CCLA	Liquid
AAA/mmf	Federated Short-Term Sterling Prime Fund*	Liquid
AAA/mmf	Standard Life Liquidity Fund** Aberdeen Sterling Liquidity Fund	Liquid
AAA/mmf	Invesco	Liquid
AAA/mmf	Deutsche Liquidity Fund	Liquid

ULTRA SHORT DATED BOND FUNDS

FITCH RATINGS (or equivalent)	ULTRA SHORT DATED BOND FUNDS Limit of £100M per fund	DURATION
AAA/f	Payden Sterling Reserve Fund	Liquid
AAA/f	Federated Sterling Cash Plus Fund*	Liquid
AAA/f	Standard Life Investments Short Duration Managed Liquidity Fund**	Liquid

*A combined limit of £100m applies to balances across the Money Market Fund and Ultra Short Dated Bond Fund both managed by Federated

**A combined limit of £100m applies to balances across the Money Market Funds and Ultra Short Dated Bond Fund all managed by Standard Life Aberdeen

SHORT DATED BOND FUNDS

FITCH RATINGS (or equivalent)	SHORT DATED BOND FUNDS Limit of £100M per fund	DURATION
n/a	To be confirmed	Liquid

FOREIGN BANKS

(with a presence in London)

FITCH RATINGS		LIMIT £M	Duration
AA- F1+	<u>AUSTRALIA</u> AUSTRALIA & NZ BANKING GROUP	25	Up to 3 years
AA- F1+	NATIONAL AUSTRALIA BANK	25	Up to 3 years
	<u>SWEDEN</u>		
AA F1+	SVENSKA HANDELSBANKEN	25	Up to 3 years

LOCAL AUTHORITIES

LIMIT OF £25M PER AUTHORITY
Any UK local authority

APPROVED COUNTRIES FOR INVESTMENT

This list is based on those countries which have sovereign ratings of AAA as at 18 December 2017

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg*
- Netherlands
- Norway *
- Singapore
- Sweden
- Switzerland

AA

- United Kingdom

* Currently no eligible banks to invest in either country as per the Link Asset Services weekly list

TREASURY MANAGEMENT SCHEME OF DELEGATION

The roles of the various bodies of the City of London Corporation with regard to treasury management are:

(i) Court of Common Council

- Receiving and reviewing reports on treasury management policies, practices and activities
- Approval of annual strategy.

(ii) Financial Investment Board and Finance Committee

- Approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- Budget consideration and approval
- Approval of the division of responsibilities
- Receiving and reviewing regular monitoring reports and acting on recommendations
- Approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit & Risk Management Committee

- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The Chamberlain

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- Submitting regular treasury management policy reports
- Submitting budgets and budget variations
- Receiving and reviewing management information reports
- Reviewing the performance of the treasury management function
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- Ensuring the adequacy of internal audit, and liaising with external audit
- Recommending the appointment of external service providers.

Audit Committee

Risk Management – Chief Executive's Directorate Risk Register

Item no: 08

Report by: Christiane Jenkins **Job title:** Director, Corporate Governance

Date: 22 March 2018

Contact Officer: Christiane Jenkins

Telephone: 020 7934 9540 **Email:** Christiane.Jenkins@londoncouncils.gov.uk

Summary: This report presents the current Chief Executive's Directorate Risk Register for consideration by the Audit Committee.

Recommendations: The Audit Committee is asked to:

- Note the current Chief Executive's Directorate Risk Register

Risk Management Framework and Registers

1. Background

- 1.1 London Councils Risk Management Strategy and Framework was last reviewed, revised and agreed by London Councils Audit Committee in September 2016. 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 Chief Executive's Risk Register to the Audit Committee.
- 1.4 The types and definitions of risks used in London Councils risk assessments are attached at Appendix 1.

2. Current position on Chief Executive's Directorate Risk Register

- 2.1 The Chief Executive's Risk Register comprises risk registers for the Corporate Governance and the Corporate Resources Directorates (Appendices 2 and 3 respectively).
 - 2.2 The Corporate Governance Register includes 8 risks and covers the following areas;
 - Democratic Services
 - Corporate Governance
 - Human Resources
 - Regional Employers Organisation
 - 2.3 The Corporate Governance Directorate Management Team members are;
 - Christiane Jenkins, Director, Corporate Governance
 - Derek Gadd, Head of Governance
 - Steve Davies, Head of London's Regional Employers Organisation
- It was last considered at the Corporate Governance Team Meeting on 17 January 2018 and then CMB on 8th February 2018.

2.4 The Corporate Resources Register includes 18 risks and covers the following areas;

- IT
- Finance
- Health & Safety
- Facilities Management

2.5 The Corporate Resources Directorate Risk Register is considered at least quarterly by the Resources Management Team, which comprises the following Officers;

- Frank Smith, Director, Corporate Resources
- David Sanni, Head of Financial Accounting
- Andy Pitcairn, Head of Budgetary Control and Procurement (retiring 31 March 2018)
- Roy Stanley, ICT and Facilities Manager
- Richard Merrington, Management Accountant (started 18 January 2018)

It was last considered by this group on 9 January 2018 and subsequently by CMB on 8 February 2018.

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.

4. Recommendations

The Audit Committee is asked to:

- Note the Chief Executive's Directorate Risk Register

Appendices;

Appendix 1 - Criteria for risks within London Councils

Appendix 2 – Corporate Governance Directorate Risk Register – last updated January 2018

Appendix 3 – Corporate Resources Risk Register – last updated January 2018

Appendix 1 - Audit Committee Report – Directorate Risk Registers

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
<i>Very High</i> 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.	<i>Very High</i> 4
<i>High</i> 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.	<i>High</i> 3
<i>Medium</i> 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.	<i>Medium</i> 2
<i>Low</i> 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.	<i>Low</i> 1

Risk scores

Risk Assessment				
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
	Low (1)	Medium (2)	High (3)	Very High (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.

Directorate		Corporate Governance				Date Last Reviewed		17 January 2018			
Director		Christiane Jenkins				Reviewed By		Corporate Governance Division			
No	Risk	Risk Type	Risk description	Risk Rating without control (1-4)			Controls in place	Responsible Officer	Risk rating with control (1-4)		
				L	I	O			L	I	O
CG 1	An appropriate Performance Management Framework not in place	Compliance, Operational, Reputation	Unable to ensure activity is aligned to delivery of corporate objectives, therefore not meeting requirements of stakeholders. Areas for improvement not identified/delivered as agreed with Leaders/Executive; unable to demonstrate value for money	2	2	4	Business planning was done differently in 2016/17 for 2017/18, in the Chair's (Cllr Kober) first year. Discussions have taken place at Corporate Management Board and London Councils Executive (Away Day on 22 November 2016) in terms of priorities for London local government/London Councils, coming out of the London Councils Challenge. Briefings/priorities have been shared with individual Portfolio Holder's by relevant staff for discussions on work to date and priorities for 2017/18. Priorities will be shared in the same way for 2018/19 and discussions have already commenced with the Executive and the Equalities Portfolio Holder on an Equalities Strategy for London Councils as part of the 2018/19 business plan/planning process.	Christiane Jenkins, Programme Director, Corporate Governance	1	1	1

Directorate		Corporate Governance					Date Last Reviewed		17 January 2018		
Director		Christiane Jenkins					Reviewed By		Corporate Governance Division		
No	Risk	Risk Type	Risk description	Risk Rating without control (1-4)			Controls in place	Responsible Officer	Risk rating with control (1-4)		
				L	I	O			L	I	O
CG 2	Inadequate democratic services function	Compliance	Committee papers and procedures not complying with legislation	1	2	2	London Councils has a dedicated Governance Team/Unit with well trained staff in place who understand the importance of the democratic process and are supported by the organisation to carry out this role to a high standard, in liaison with the City Corporation legal team. Staffing levels in the Governance Support Team is such that any coincidence of emergency/illness/leave etc. may result in others in the Corporate Governance Division or elsewhere in the Organisation needing to step in and cover. Contingency planning for this is in place. The Governance Support Team Manual is up-dated regularly as part of this contingency. Any training requirements are identified and then met.	Derek Gadd, Head of Corporate Governance	1	1	1

Directorate		Corporate Governance					Date Last Reviewed		17 January 2018		
Director		Christiane Jenkins					Reviewed By		Corporate Governance Division		
No	Risk	Risk Type	Risk description	Risk Rating without control (1-4)			Controls in place	Responsible Officer	Risk rating with control (1-4)		
						L			I	O	
CG 3	Inadequate corporate governance framework	Compliance Financial, Operational, Reputation	Insufficient controls in place and/or existing controls not applied appropriately.	2	2	4	An annual review of corporate governance framework in line with CIPFA/SOLACE guidance is undertaken as well as ongoing monitoring and review, with an annual report to Corporate Management Board with an action plan. In 2016 CIPFA/Solace published an updated good practice guidance document: <i>Good Practice Guidance 2016: Delivering Good Governance in Local Government (CIPFA/SOLACE)</i> The Corporate Governance Division has carried out a full comparison review of this revised guidance against the existing Framework, mapping any gaps and identifying what is/is not applicable for/to London Councils, and this new guidance will now form the basis of our Corporate Governance Framework going forward. Also, there are regular reports to the Corporate Governance Group, as appropriate. Risk Registers are in place and are reviewed regularly in line with London Councils Risk Management Strategy and Framework, which was updated in September 2016 and approved by Audit Committee.	Christiane Jenkins, Programme Director, Corporate Governance	1	1	1

Directorate		Corporate Governance				Date Last Reviewed		17 January 2018			
Director		Christiane Jenkins				Reviewed By		Corporate Governance Division			
No	Risk	Risk Type	Risk description	Risk Rating without control (1-4)			Controls in place	Responsible Officer	Risk rating with control (1-4)		
				L	I	O			L	I	O
CG 4	Non compliance with Information Legislation	Compliance Operational, Reputation	Non compliance with information legislation (FOI, EIR, DPA) leading to organisation not adhering to information security and providing information as and when required.	2	3	6	Corporate Governance provide support and guidance to the organisation on responses to FOI, DPA and EIR requests, and ensure London Councils policies meet legislative requirements. Legal support is obtained from the City of London (COL) as required. Training needs for individual officers is identified through the appraisal process. Act Now Training delivered Information Security training, including updates on GDPR requirements, to all staff in January/February 2017. A regular programme of data protection/information security training is available for new staff and to meet ongoing needs. London Councils has Information Security, Information Management and Data protection policies. A separate GDPR preparation plan has been developed and will be monitored by CMB leading up to May 2018 when the legislation comes into effect. Protection/information security training is available for new staff and to meet ongoing needs.	Christiane Jenkins, Programme Director, Corporate Governance, supported by Emily Salinger, David Dent	1	2	2

Directorate		Corporate Governance					Date Last Reviewed		17 January 2018		
Director		Christiane Jenkins					Reviewed By		Corporate Governance Division		
No	Risk	Risk Type	Risk description	Risk Rating without control (1-4)			Controls in place	Responsible Officer	Risk rating with control (1-4)		
						L			I	O	L
CG 5	Non-compliance with London Councils Information Governance policies	Compliance Operational, Reputation Financial	The organisation does not fully implement the information governance policies arising from GDPR and consequently does not manage sensitive or personal data appropriately.	3	4	12	A separate GDPR preparation plan has been developed and will be monitored by CMB leading up to May 2018 when the legislation comes into effect. Protection/information security training is available for new staff and to meet ongoing needs.	Emily Salinger (Frank Smith)	2	4	8

Directorate		Corporate Governance					Date Last Reviewed		17 January 2018		
Director		Christiane Jenkins					Reviewed By		Corporate Governance Division		
No	Risk	Risk Type	Risk description	Risk Rating without control (1-4)			Controls in place	Responsible Officer	Risk rating with control (1-4)		
				L	I	O			L	I	O
CG 6	Ineffective operational HR service from City of London	Operational, Reputational	Recruitment not timely and mistakes made, perceptions of London Councils as a potential employer is poor; payroll issues not resolved in timely fashion; training delivered is of poor quality	2	2	4	There are weekly update meetings between the City's Corporate HR Business Unit/Director of Corporate Governance and Head of Budgetary Control and Procurement to ensure awareness of/effective responses to, HR issues. There are 3 meetings a year to review the SLA with Senior Management at the City Corporation, where representatives from different business units in the City attend to discuss any issues and future improvements, e.g. training, payroll, pensions and recruitment. Regular meetings are also held with the LPFA to monitor issues related to pensions.	Christiane Jenkins, Programme Director, Corporate Governance	1	1	1
CG 7	London Councils policies and procedures do not comply with Equalities legislation	Compliance reputational	If internal policies and procedures do not comply with Equalities legislation, they may not be valid or appropriate, and invalid procedures or decisions may occur,	2	2	4	Equalities Impact Assessments are completed for all major policy changes or new policies/procedures and are consulted on with Joint Consultative Committee and the Corporate Equalities Group. Equalities implications are also part of every committee report. Training needs, to ensure staff awareness of	Christiane Jenkins, Programme Director, Corporate Governance	1	2	2

Directorate		Corporate Governance					Date Last Reviewed		17 January 2018		
Director		Christiane Jenkins					Reviewed By		Corporate Governance Division		
No	Risk	Risk Type	Risk description	Risk Rating without control (1-4)			Controls in place	Responsible Officer	Risk rating with control (1-4)		
				L	I	O			L	I	O
			for example relating to recruitment and selection, managing staff.				equalities issues, are identified through the appraisal process and Corporate Governance ensures that appropriate training is identified as required. Five training modules have now been rolled out via an external training company on an opt in basis.				
CG 8	Unplanned absence of regional employers' secretary for extended period or on the day of key meetings	Operational	Lack of capacity to deliver objectives in divisional work plan - reputational risk of being unable to provide core services	1	2	2	Arrangements in place for planned absences. Two London boroughs Heads of HR are on a standby list to advise the Employers' Side of GLPC or GLEF if the Employers' Secretary is absent for a formal meeting	Christiane Jenkins, Programme Director, Corporate Governance Steve Davies, Head of London Regional Employers' Organisation	1	1	1

Corporate Resources Risk Register

Division	Corporate Resources Division	Date Last Reviewed	January 2018			
Director	Frank Smith	Reviewed By	David Sanni			

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
CR1	Insufficient disaster recovery for IT systems	Operational, Reputation	A complete IT failure - system unable to be restored	4	2	8	Off site server allows partial immediate restoration. The Office365 email system is based in the cloud which also allows for the immediate restoration of data. Regular liaison with Client IT SLA Manager at the City of London regarding system resilience. There have been upgrades to the IT system configuration and infrastructure, approved by the Corporate Management Board (CMB), which improve the stability and resilience of the IT environment. A comprehensive testing plan is in place which is carried out in conjunction with the City of London and Agilisys, their IT contractor.	Roy Stanley, ICT & Facilities Manager	1	2	2
CR2	Procurement regulations breached	Compliance, Financial, Project, Reputation, London	Non-compliance with statutory requirements and London Councils Financial Regulations which may result in financial penalties, risk to reputation, appointment of unsuitable partners, potential legal action taken against London Councils, instigating services that are ultra vires etc. Also risk of incorrect procurement advice provided to Directorate Staff	3	3	9	Close working and referrals to the City of London Legal department, training for London Councils staff involved in procurement, clear procedure notes and guidance (the Procurement Toolkit) are included as an Appendix of the Financial Regulations. The Procurement Toolkit has been reviewed and updated to incorporate the requirements of the Public Contracts Regulations (2015). The revised version was approved by CMB in August 2017.	Andy Pitcairn Head of Budgetary Control & Procurement	1	3	3

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
CR3	Inadequate Business Continuity arrangements	Operational, Reputation	Unable to continue day-to-day business in the event of a catastrophic disaster, or unforeseeable event.	1	4	4	London Councils' Business Continuity Plan (BCP) was updated and approved by CMB in April 2016. The BCP includes adequate arrangements to ensure that all areas of service could continue in the event of a disaster. Nominated Gold, Silver and Bronze team members are the main points of contact for help or advice on emergency procedures and continuity arrangements. Each Directorate has considered its business continuity risks which are reflected in the business risk impact analysis and identified appropriate contingency plans. The BCP includes details of scenario testing, communication plans and examples of the types of scenarios to be considered in disaster recovery situations. Details of scenario testing and incidents are recorded on Appendix A of the plan which is updated on a quarterly basis. Significant incidents are reported to the Corporate Governance Group, Corporate Management Board and the Audit Committee.	Roy Stanley, ICT & Facilities Manager	1	3	3
CR4	Loss of income due to freeze/reduction in borough subscriptions	Compliance Financial, Operational, Project	Insufficient resources available to achieve objectives leading to poor service delivery, reputational risk, depletion of financial reserves, inability to meet statutory requirements.	2	3	6	Effective budget planning and in-year budget monitoring and detailed quarterly budget monitoring reports to the Executive and funding stream committees.	Andy Pitcairn Head of Budgetary Control & Procurement	1	3	3
CR5	Non collection of income owed to London Councils	Financial	Lack of liquid cash resources; not able to meet short-term commitments, such as salary payments.	3	4	12	Effective debt monitoring procedures are in place which include the regular review of debtor account balances and cash flow monitoring, automatic reminders generated by CBIS accounting system, follow-up letters and telephone calls made to debtors, ensuring purchase orders are obtained prior to agreeing to perform services, escalation protocol in place for chasing member debts and consideration given to legal referral where relevant. Six monthly progress reports presented to Executive.	David Sanni, Head of Financial Accounting	1	2	2
CR6	Inadequate reconciliation of financial transactions (including Grants)	Financial	Correct amounts due and payable not reflected in the accounts. Financial statements under/over stated. Possible audit qualification issue.	2	3	6	Quarterly and annual reconciliations of systems are undertaken and reviewed.	David Sanni, Head of Financial Accounting	1	2	2

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
CR7	Accounts Qualification	Compliance, Reputation, Financial.	Qualified report from external auditors due to missing legal deadline; non-compliance with accounting standards; material errors and misstatements included in the accounts and inadequate system of internal controls resulting in a loss of reputation amongst stakeholders.	3	2	6	Final Accounts timetable produced by City of London has to be adhered to by London Councils. Weekly reconciliations undertaken during closure period. Weekly Finance Team meeting with Director to ensure deadlines met. Developments in Local Authority Accounting are monitored and applied during preparation of accounts. Annual internal audit review of overall system of internal control. Regular update meetings with the external auditor during the course of the year.	David Sanni, Head of Financial Accounting	1	2	2
CR8	Poor monitoring of budgets	Financial, Reputation	Possible audit qualification issue, budget holders make decisions based on incorrect financial data. Potential overspend/underspend position.	2	3	6	Agreed Performance Indicator for reporting monthly salaries forecast to CMB and detailed quarterly budget monitoring reports to the Executive and funding stream committees.	Andy Pitcairn Head of Budgetary Control & Procurement	1	2	2
CR9	Inadequate IT Security	Operational, Reputation, Compliance	System open to abuse from internal misuse and external threats.	4	4	16	IT Security maintained by the City of London (CoL) via SLA for IT services. CoL (IS) provides advice and guidance on security best practice commensurate with data held by London Councils. Regular liaison with Client IT SLA Manager at the City of London regarding IT system issues. The improvements to system security recommended in the 2013 internal audit ICT review have been implemented providing more robust access controls.	Roy Stanley, ICT & Facilities Manager	2	4	8
CR10	Relationship break-down with internal /external audit	Compliance	Relationship with internal/external auditors becomes less 'collaborative' leading to more confrontation over issues raised during the course of audits.	2	1	2	Regular liaison meetings with both internal and external audit during the course of audits. Effective working relationships are developed and maintained. Annual audit plans are approved each year which set out the responsibilities of the relevant parties.	Frank Smith Director, Corporate Resources	1	1	1
CR11	Failure to comply with Health & Safety	Compliance	Risk of physical injury to staff, the public and other stakeholders. Damage to London Councils assets.	3	3	9	Nominated officer responsible for H&S issues and maintenance of London Councils H&S policy. Appropriate insurance policies in place.	Roy Stanley, ICT & Facilities Manager	1	2	2
CR12	Maintain Asset Register and depreciate as required	Financial	Correct net book value of assets not reflected in financial statements; possible audit qualification issue. Inability to validate assets; potential financial loss in event of insurance claim.	2	2	4	Aggregate listing currently maintained and confirmed correct accounting entries by external audit. A detailed inventory listing is updated and reviewed on a regular basis.	David Sanni, Head of Financial Accounting	1	1	1

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
CR13	Poor management of facilities management contractors	Compliance, Financial	Risk of failure by contractors to comply with the terms of their contract. Inadequate service delivery and inefficient use of resources. Risk of physical injury to staff, the public and other stakeholders.	2	2	4	Contract management responsibilities assigned to nominated officers. Performance monitoring procedures established which include regular liaison with account managers. New contracts contain preventative rather than reactive performance monitoring measures which include provisions for penalties to be imposed for poor performance. Contractors H&S policies are scrutinised and contractors made fully aware of London Councils H&S requirements.	Roy Stanley, ICT & Facilities Manager	1	1	1
CR14	Corporate Resources Staff Charter key performance targets not met (Items not explicitly stated above)	Operational	The lack of an efficient and effective support service provided to London Councils	4	2	8	Close monitoring of KPIs, regular monitoring meetings by CRMT, quarterly stakeholder meetings, review of feedback from staff & surveys, links to staff objectives and appraisals.	Frank Smith Director, Corporate Resources	2	1	2
CR15	Loss of funds held by City of London	Financial Reputational	Temporary or permanent loss of access to funds and/or lost interest of funds held by the City of London as a result of a banking crisis or poor treasury management	2	3	6	London Councils has an agreement with the City of London for a charge to be made for the provision of an indemnity against possible losses of sums invested on behalf of London Councils. There is also regular monitoring of cash balances and the City of London's Treasury Management & Investment Strategy.	Frank Smith Director, Corporate Resources	1	3	3
CR16	Fraud	Financial & Reputation	The risk of financial loss due to fraudulent activity.	4	4	16	Robust system of internal control & governance arrangements, external & internal audit reviews of internal controls and underlying transactions, effective budgetary controls to identify unusual transactions and fidelity insurance. London Councils has established policies on Fraud, Bribery & Corruption and Whistleblowing.	Frank Smith Director, Corporate Resources	1	4	4
CR17	Lack of IT Strategy	Operational, Project, Reputation & Internal	The risk of IT systems unable to fulfil the future requirements of London Councils.	2	3	6	The ICT Strategy for 2015-18 was approved by the Corporate Management Board in March 2015 and published on the intranet for staff and stakeholders to read. Operationally, the ICT & Facilities manager work alongside COL IT officers & Agilisys, the City IT contractor, to review existing systems to ensure that they are suitable to meet day to day requirements. The strategy is owned by CMB and reviewed quarterly by a user focus group with updates provided to CMB members.	Frank Smith Director, Corporate Resources	1	3	3
CR18	Data Security	Compliance & Reputation	The risk that personal or commercially sensitive data is compromised. This breach of law will result in sanctions from the Information Commissioners Office.	2	2	4	All personal and commercially sensitive data should be held in locked cabinets. All staff handling personal and commercially sensitive data have attended data protection training. Regular checks are carried out to ensure compliance with best practice.	Frank Smith Director, Corporate Resources	1	1	1

Audit Committee

Extension of External Audit Contract Item no: 09

Report by: David Sanni **Job title:** Head of Financial Accounting
Date: 22 March 2018
Contact Officer: David Sanni
Telephone: 020 7934 9704 **Email:** david.sanni@londoncouncils.gov.uk

Summary

In December 2015, the Leaders' Committee approved the appointment of KPMG as London Councils external auditor following a procurement exercise and recommendation from the Audit Committee. The external audit contract awarded to KPMG was for an initial three year period with an option to extend it for an additional year subject to satisfactory performance. The initial three year period covered the audit of the 2015/16, 2016/17 and 2017/18 financial accounts. This report asks the Audit Committee to consider extending KPMG's external audit contract for an additional year to include the audit of 2018/19 accounts.

Recommendations

The Audit Committee is asked:

- to agree to the extension of the existing external audit contract with KPMG for a further period of one year; and
- to recommend that the Leaders' Committee approve this extension.

Introduction

1. In accordance with the requirements of London Councils' governing agreement, the Director of Corporate Resources has to make appropriate arrangements to procure the audit of London Councils' annual accounts. An audited version of the annual accounts is presented to the Audit Committee for approval before circulation to all member boroughs each year. In December 2015, KPMG LLP was appointed as London Councils' external auditor for a three year period commencing from 2015/16 to 2017/18. KPMG's services were procured through a Crown Commercial Services' procurement framework and the contract includes an option to extend it by a further year. The Audit Committee is asked to consider the extension of KPMG's current contract to include the audit of the 2018/19 accounts.

Extension of Existing Contract

2. The 2017/18 accounts is the final set of annual accounts that will be audited by KPMG. The current contract for the provision of external audit services includes an option to extend the contract for a maximum of one year subject to satisfactory performance. It is the view of London Councils officers, that KPMG has provided a highly professional and efficient external audit service over the three years of the contract. The firm has consistently met the deadlines and milestones set out in the contract and has not received any complaints on the quality of its audit services.
3. KPMG has indicated that it would be prepared to accept the contract extension. KPMG has charged an annual audit fee of £36,000 over the course of the three years and has stated that the proposed fees for 2018/19 will remain at the same value. The Audit Committee should be aware that there are some instances where the proposed fee could be increased such as a change in the scope of the audit. Any change in the proposed fees would have to be agreed with the Director of Corporate Resources and presented to the Audit Committee.
4. The Audit Committee's Terms of Reference includes the responsibility to make a recommendation to the Leaders Committee on the appointment, reappointment and removal of the external auditor. If the Committee agrees to the contract extension, a recommendation will have to be made to the Leaders' Committee to approve the decision.

Procurement of New External Audit Contract

5. London Councils officers will commence arrangements to procure an external audit service for 2019/20 onwards and intend to complete the exercise by March 2019.

Recommendations

6. The Audit Committee is asked:
 - to agree to the extension of the existing external audit contract with KPMG for a further period of one year; and
 - to recommend that the Leaders' Committee approve this extension.

Financial Implications for London Councils

The proposed audit fee for the 2018/19 financial accounts is £36,000.

Legal Implications for London Councils

London Councils' financial regulations require the 2018/19 audited accounts to be presented to the Audit Committee for approval by 30 September 2019. If the decision to extend the contract is not agreed, London Councils officers will have to bring forward the procurement exercise for a new external audit contract to ensure that the audit of the 2018/19 accounts is completed within the deadline.

Equalities Implications for London Councils

None

Appendices

None

Background Papers

London Councils Leaders' Committee Governing Agreement

London Councils Audit Committee – Terms of Reference

Audit Committee

Implementing the General Data Protection Regulation (GDPR)

Item no: 10

Report by: Frank Smith

Job title: Director of Corporate Resources

Date: 22 March 2018

Contact Officer: Christiane Jenkins

Telephone: 020 7934 9540

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Summary

This item provides the Audit Committee with an opportunity to be updated on London Councils plans for implementation of the General Data Protection Regulation (GDPR).

The Director of Corporate Resources will be in attendance to provide a verbal update

Recommendations The Audit Committee is asked:

- To note the progress towards implementation of GDPR.
-

1. Background

- 1.1 As a public body London Councils is in the process of preparing for the implementation of the General Data Protection Regulation (GDPR) effective from 25th May 2018.
- 1.2 At the last Audit Committee (21st September 2017) it was agreed to include a GDPR update as a standing item on the Audit Committee agenda.

2. Progress on GDPR Implementation

- 2.1 Following the discussion at the September 2017 Audit Committee, a report was provided for the meeting of London Councils Executive which took place on 16 January 2018. The report sent to that meeting is attached at Appendix A. The report was subsequently shared with members of this Committee by email immediately after that meeting.
- 2.2 As well as noting the report, the Executive also received a verbal update to the report at the meeting recorded in the minutes, namely:
- London Councils was currently making good progress in preparing for the General Data Protection Regulations (GDPR), which are effective from 25th May 2018
 - Successful partnership work had been carried out with the London Fire Brigade in determining the impact of GDPR
 - GDPR is not a huge change for organisations that have been doing existing data protection work well
 - London Councils has a GDPR improvement plan and an officer board monitoring it. Progress had been shared with Internal Audit at the City
 - All areas of high risk have been identified and some low-risk also
 - In relation to two major contracts being retendered - for Taxicard and Freedom Pass, the impact of GDPR on those relationships has been included within the appropriate tender/contract documentation
 - Standard clauses for contracts need to be written in for existing and new contracts and it was hoped that these would be provided via standard clauses provided by the Government/Information Commissioner
 - The Information Commissioner wants to see evidence of the preparedness of organisations for the impact of GDPR, including a record of regular staff training
 - It was hoped that specific consent to hold existing personal data was not going to be needed from individual holders of a Taxicard which would mean writing to every one of the existing 67,000 card holders, which would cost around £30,000 in postage costs alone.
- 2.3 Since the report to the Executive in January, work has concentrated on identifying existing London Councils contracts that potentially handle personal or sensitive data and which continue after 25 May. The total number of contracts identified is 98, including the four SLAs with the City of London for financial (including payroll), HR, ICT and legal services.
- 2.4 Also included in the 98 contracts under review are the Financial Agreements that exist in respect of commissioned services provided under the S.48 pan-London grants programme and the separate programme in respect of projects delivered under the ESF arrangements.

- 2.5 Officers are considering the best means of incorporating the requirements of GDPR into these existing agreements, taking into account current guidance issued by the Crown Commercial Service and the Local Government Association, as well as guidance issued by the GLA and the DWP in respect of the ESF Funding Agreements. The City of London, as London Councils legal advisors, are also providing commentary on the manner in which it proposes to approach this task, although for the four SLAs, London Councils, as data controller, will need to be clear in what it expects from the City of London in respect of the handling of personal or sensitive data under these specific agreements.
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3. Implications

Financial Implications for London Councils

None.

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendices

Appendix A – Report to the Executive on GDPR – 16 January 2018

Background Papers

None

Executive

General Data Protection Regulation (GDPR) Update Item 8

Report by: Frank Smith **Job Title:** Corporate Governance Manager

Date: 16 January 2018

Contact Officer: Frank Smith

Telephone: 020 7934 9700 **Email:** Frank.Smith@londoncouncils.gov.uk

Summary: This report:

- Informs Executive about London Councils preparations for the introduction of the General Data Protection Regulation in May 2018 and other related legislation.

Recommendation: Members of the Executive are asked to:

- Note the report and the work being done in preparation for the General Data Protection Regulation (GDPR) and regarding the Data Protection Bill.

General Data Protection Regulation (GDPR) Update

1. Background

1.1 London Councils is currently in preparation for the General Data Protection Regulation (GDPR) effective from 25th May 2018. The main changes introduced by GDPR will be:

- *An increase in the scope of companies covered by Data Protection*
- *Higher penalties for serious data infringements*
- *Increased clarity regarding consent for companies to hold personal data*
- *A requirement for written contracts between controllers and processors of data*
- *A mandatory duty to declare breaches*
- *The appointment of a specific Data Protection Officer (DPO) role*
- *Increased rights around data access and 'the right to be forgotten'*

1.2 In addition a Data Protection Bill was introduced into Parliament on 13 September 2017 and is currently at Report stage in the House of Lords. The London Fire and Emergency Planning Authority provided a helpful explanation of the function of the legislation which is copied below;

The GDPR leaves plenty of gaps for member states to fill in. For example, it is up to member states to stipulate the grounds on which 'special category' personal data (formerly known as 'sensitive personal data' in UK law) can be processed. Exemptions from some individual rights and obligations (such as the right to make a subject access request, the right to be forgotten and to have personal data rectified) are also matters for member states. That is one of the main functions of the Bill: it fills in the gaps in the GDPR.

Another of the Bill's functions is to extend the GDPR into areas of data processing where it would not otherwise reach. For example, the GDPR does not apply to law enforcement or intelligence services activity, but the Government has voluntarily imposed a GDPR-like regime in those areas.

A third function of the Bill is to attempt to make UK data protection law Brexit-proof. Once the UK leaves the EU, the GDPR will no longer be directly applicable in this country.

Crucially, however, a post-Brexit UK will need to have in place a data protection regime that mirrors the GDPR; otherwise, the transferring of personal data between the UK and the EU will be extremely problematic. The Bill therefore strives to make UK data protection law stand on its own two feet while tracking the GDPR.

However, the Bill does not simply transpose the body of the GDPR into UK law. The Bill is not a copy-and-paste of the GDPR. Instead, it constantly cross-refers to the GDPR, meaning that one has to read both the Bill and the GDPR side by side. Neither document alone gives the complete picture of data protection in the UK.

2. Progress to Date regarding GDPR

- 2.1 To some extent preparation for GDPR fits in with the existing programme of Information Governance work. The main elements of the programme – the creation of asset registers, risk registers and retention schemes for the various data elements in London Councils - are also core parts of the GDPR preparation plan.
- 2.2 However an internal team has been established from the Corporate Management Board (CMB) appointed Corporate Governance Group to oversee the preparation plan leading up to May 2018 and beyond (available as a background document to this report), and to sign off work as it is completed. The Senior Information Risk Owner (SIRO) remains the Director of Corporate Resources.
- 2.3 The main steer of the work is managed via London Councils Corporate Governance team, but a network of Information Asset Officers (IAOs) has been established to devolve ownership of the compilation of asset registers, to whom Corporate Governance provides support and advice.
- 2.4 For the next 6 months, the work will focus more heavily on personal data held by teams to ensure we meet GDPR requirements by 25th May 2018. General guidance about information governance, particularly the management of confidential data, will still be provided to all teams.
- 2.5 Work is also underway to review the contracts register with a view to review existing third party contracts which involve large amounts of personal data. The London Councils

procurement toolkit is also being reviewed to ensure that future contracts build in GDPR requirements including breach reporting.

2.6 Key deliveries to date in terms of preparation have included:

- A revised Information Security policy
- Establishment of IAOs for all key areas
- Development of asset registers for key services

2.7 CMB have also recently reviewed the requirements for Data Protection Impact Assessments (or Privacy Impact Assessments) required for assessing processing requirements and mechanisms in relation to both new and existing work areas. To manage these requirements they have agreed that such assessments will be carried out for new projects and programmes and also where changes occur to existing programmes which involve personal data.

3. Training and Learning

3.1 Regular training of staff is a key component of good information governance. We have introduced an on line modular training tool, Bob's Business, for all staff, rolling out one short course every month from July 2017 to maintain awareness of information security issues.

3.2 Emily Salinger, Corporate Governance Manager, successfully completed a 'GDPR Practitioner' course with Act Now training in June/July 2017.

3.3 London Councils is a member of a number of cross London networking groups and is actively involved in the sharing of good practice with Local Authority partners.

4. Data Protection Bill

4.1 London Councils have been monitoring the Data Protection Bill in the hope that it would have provisions that enable us to process sensitive personal data for our services without needing to ask for consent (which has a high threshold under GDPR and would have been difficult and costly to implement). Although the legislation included provision for

processing data relating to 'social protection', it was not clear that it would apply to non-statutory services like Taxicard.

- 4.2 A team at London Councils secured, via the Policy and Public Affairs office and a Peer (Lord Tope) a tabled amendment to the Bill during its Committee Stage which would have alleviated concerns. Following a short debate on the issue, namely on Taxicard, the government requested the amendment be withdrawn so they could continue working on the issue. The amendment was withdrawn but the response to our concerns was positive. Lord Tope has asked that he be kept updated and is keen to return to the issue if no resolution is found.
- 4.3 We are also considering a proposal for approaching the Information Commissioners Office (ICO) regarding the Taxicard consent issue so they can consider situations like ours within their guidance.

Background Papers

GDPR Project Preparation Plan

Financial implications for London Councils

There may be financial implications arising from the GDPR preparation, both in identifying issues and resolving them, however it is not possible to quantify these costs at the moment.

Legal implications for London Councils

London Councils is required to adhere to the provisions of relevant information management and data protection legislation. It is likely that the improvement programme and GDPR preparation will require further legal advice, particularly on some of London Councils contracts and as a result of the commitment to seek legal advice on data sharing agreements.

Equalities implications for London Councils

None.