

Minutes of the Informal Meeting of the Audit Committee held Virtually on 16 September 2021

Cllr Roger Ramsey was in the Chair

Members Present:

Cllr Roger Ramsey (LB Havering)
Cllr Muhammed Butt (LB Brent)
Cllr David Gardner (RB Greenwich)
Cllr Stephen Alambritis (LB Merton)
Cllr Robin Brown (LB Richmond)

In Attendance:

Matt Lock, Head of Audit & Risk Management, City of London Corporation
Martha Franco-Murillo, Senior Auditor, City of London Corporation
Ciaran T McLaughlin, Director, Grant Thornton UK LLP
Ibukun Oluwasegun, Grant Thornton UK LLP

London Councils' officers were in attendance.

The Chair informed members that this would be an informal meeting of the Audit Committee and that any decisions taken would be agreed via the London Councils' Urgency Procedure following the meeting.

1. Apologies for Absence

There were no apologies for absence.

2. Declarations of Interest

There were no declarations of interest.

The Chair informed members that this would be Frank Smith's last meeting of the Audit Committee as he was retiring on 3 October 2021. He said that Frank Smith had attended over a 1,000 London Councils' committee meetings and would be greatly missed by this Audit Committee and London Councils as a whole. Frank Smith said that it had been a pleasure working for London Councils. He said that he had given more than 38 years' service and was a firm advocate for local government in London. Frank Smith wished London Councils all the best for the future.

3. Minutes of the Audit Committee meeting held on 17 June 2021

The Chair said that the action to email the Audit Committee members the revised wording of the Annual Governance Statement had been completed.

As this was an informal meeting of the Audit Committee, the minutes of the meeting held on 17 June 2021 were noted by the Committee and would be agreed by London Councils' Urgency Procedure following the meeting.

4. Draft Annual Audit Report 2020/21

The Audit Committee received a report that presented members with the annual audit report to those charged with governance (ISA260) prepared by Grant Thornton, London Councils' external auditor, in respect of the 2020/21 financial year.

The Chair informed the Audit Committee members that David Sanni would be the Acting Director of Corporate Resources once Frank Smith retired. David Sanni, Chief Accountant, London Councils, said that the report presented the audit findings by Grant Thornton - London Councils' external auditors. He said that there were still some areas that were outstanding.

Ciaran McLaughlin, Director, Grant Thornton UK, introduced the report and made the following comments:

- The report provided an update on audit findings for work on the 2020/21 accounts.
- A letter will be sent to the London Pension Fund Authority (LPFA) seeking assurances over the validity and accuracy of information included in the IAS19 pension valuation report.
- The London Councils Ltd accounts had been completed and signed off.
- The review of significant risks included risks relating to the fraudulent recognition of revenue, which is a standard audit consideration. Given the nature of London Councils income streams, such as borough subscriptions, and the culture and governance arrangements within the organisation, the risk of fraud has been rebutted.
- Audit testing had been carried out on management override of controls including the review of journals and journal listings. Audit work was still in progress and there were no issues identified so far.
- The next significant risk considered was the pension scheme deficit. There were no matters arising. There was a pension deficit across all authorities, although the increase in London Councils' deficit was large in comparison and more work needed to be carried out.
- Grant Thornton was still working through the key judgements and estimates. Grant Thornton was satisfied that the process for dilapidation and external decoration provisions for the Limited Company were adequate.
- Testing had been completed for the European Social Fund (ESF) Grants in the Grants Committee.
- There were no other matters arising and a letter of representation would be required for all entities within London Councils.
- Sufficient work had been carried out with regards to management's going concern assessment, and there were no matters to bring to the Audit Committee's attention.
- There were no significant facts or matters that impacted on Grant Thornton's independence as auditors, and Grant Thornton had complied with the Financial Reporting Council's Ethical Standards.
- No audit adjustments had been identified to date (Appendix A), which was very positive.
- There was nothing to draw members' attention to with regards to London Councils Ltd. This was signed off on 9 September 2021.

The Chair asked when the outstanding areas of work in the report would be completed. He said that the previous year's audit had been completed in December/January. Ciaran McLaughlin said that the work should be completed by the end of October 2021. The Chair asked if the amount of additional fees is likely to change. Ciaran McLaughlin said that the additional costs of £7,800 should not increase at this stage, although there was more work to do, including the AR27 to finish off.

Councillor Brown asked about the increase in the net pension deficit. He also asked about the changes to the financial assumptions and mortality indicators used in the calculation of the pension deficit. Ciaran McLaughlin confirmed that there had been changes to key assumptions. The assumptions were compared to an expected range assumptions produced by PwC and were found to be within a range expected to produce a reasonable estimate. Ciaran McLaughlin said that there

would be concern if the estimates were outside this range. He said that the mortality indicators used by the actuary were also within the expected range.

Ciaran McLaughlin said that the total actuarial loss was £16.5 million compared to a £4.5 million gain from the previous year. Councillor Brown said that the deficit was £42 million. David Sanni said that the pension liability had increased to £42 million, which was up from the £24 million last year. He said that there had been increases in the financial assumptions used to calculate the pension obligation. The discount rate had reduced from 2.35% to 2% and the inflation rate had increased from 1.85% to 2.85% which both increase the value of the liability. He said that the assumptions used by the actuary were on the prudent side of PwC's range of financial assumptions. Councillor Brown asked what the value was of the gross pension liability. Ciaran McLaughlin confirmed that the gross pension liability was £105 million. Councillor Brown said that the pension liability was considerably underfunded in that case, as the gap was large. He asked if the financial assumptions used by the actuary were more prudent than those used in previous years. David Sanni said that the financial assumptions were no more prudent than previous years. The Chair said that there had been a significant increase in the pension deficit, which needed to be monitored.

Councillor Gardner said that the values of pensions fund assets had increased over the last 12 months. He said that he thought that the audit was supposed to be completed by the end of September 2021. Councillor Gardner said that London Councils had come out of the audit favourably. He also asked about the misstatement on the balance sheet. Ciaran McLaughlin confirmed that there was no statutory deadline for London Councils' accounts to be completed. He said that Grant Thornton was not in a position to sign-off the accounts by 30 September 2021, and that it would take longer to do so. Ibukun Oluwasegun, Audit Manager, Grant Thornton UK said the misstatement was a result of the incorrect classification of a £951 debtor in the balance sheet of the limited company accounts.

Frank Smith, Director of Corporate Resources, London Councils, said that, with regards to pensions, the amounts shown in the accounts would never be fully payable. He said that this would only happen if London Councils ceased to exist as an organisation. The LPFA would then have to start a cessation order which would result in the calculation of a cessation value. Frank Smith said that London Councils did not have a great deal of influence on the financial assumptions used to calculate the pension deficit and relied on the expertise of the actuary, Barnett Waddingham, and the LPFA. However, the increase in inflation is well publicised and will increase the value of the pension liability. Councillor Brown felt that it would be beneficial for London Councils to have a better understanding of the pension scheme deficit. .

The Audit Committee noted the contents of the annual audit report included at Appendix A.

5. Financial Accounts 2020/21

The Audit Committee received a report presenting the statement of accounts for 2020/21 for approval. The accounts to be noted (and approved via the London Councils' Urgency Procedure following the meeting) comprised of London Councils Consolidated Statement of Accounts for 2020/21, London Councils Transport and Environment Committee Statement of Accounts for 2020/21 and London Councils Grants Committee Statement of Accounts for 2020/21.

David Sanni introduced the report that presented the three sets of accounts (Grants, TEC and Consolidated) to the Audit Committee for 2020/21. He informed members that there was a pre-audited surplus in the consolidated accounts of £1.983 million (Table 1). Table 3 showed the adjusted position for 2020/21 as shown in the statutory accounts which included the actuarial loss on pensions assets/liabilities. Finally, Table 5 showed the usable reserves at 31 March 2021, which amounted to £13.713 million (consolidated). The Chair said that he would have to certify the accounts on behalf of the Audit Committee when the audit was completed.

Councillor Gardner thanked David Sanni for the accounts. He asked why reserves had been used in setting the annual budget and if this practice was sustainable. Councillor Gardner also asked why the actual use of reserves differed from the budgeted amount. The Chair informed members that the London Councils' Leaders Committee had agreed the budget, along with the use of reserves. David Sanni said that reserves had been used to set a balanced budget for the year. He said that the actual use of reserves of £4 million included a transfer from the pensions reserve to offset the impact of the increase in the pension scheme deficit on the revenue account in accordance with local authority accounting. There would be a budget setting exercise in November, before boroughs set their budgets, and the level and use of reserves would be considered.

Frank Smith said that Table 2 showed a surplus of £1.983 million, and Table 4 in the report showed a breakdown of how it arose. Frank Smith said that 2020/21 was an extraordinary year owing to the effects of Covid-19. There were reductions on income from the London Lorry Control Scheme (LLCS), the replacement of Freedom passes and the hire of meeting rooms at the Southwark Street offices. London Councils' premises requirements will be considered as part of a review of future operating models.

Councillor Brown felt that the reserves could go towards helping out hard pressed boroughs at the moment. Frank Smith said that this issue had been brought up at London Councils' Executive Committee last week, where reviewing benchmark levels was discussed. The level and adequacy of reserves will be considered as part of the 2021/22 budget setting process.

As this was an informal meeting of the Audit Committee, any decisions/approval of the accounts would be agreed by the London Councils' Urgency Procedure following the meeting.

The Audit Committee:

- Noted the statement of accounts, as detailed at Appendices A to C of this report subject to the satisfactory conclusion of outstanding audit work detailed on Item 4 of the Committee agenda.

6. Risk Management: Corporate Risk Register

The Audit Committee received a report that presented the current Corporate Risk Register for consideration by the Audit Committee.

Christiane Jenkins, Director of Corporate Governance, London Councils, introduced the report. She said that the Corporate Risk Register was presented to the Audit Committee every September for noting. The Directorate and Corporate Risk Registers were reviewed quarterly by the Corporate Governance Officer Group and on a twice-yearly basis by the Corporate Management Team (CMT). Christiane Jenkins said that all the risks were reviewed in 2020, with particular attention being paid to where London Councils was with regards to risks caused by the pandemic. Risk 1 ("loss of borough support") had been strengthened and risk 10 ("failure to exploit gains and synergies from London Councils Challenge process") had been deleted as all the workstreams had been completed or absorbed into business plans.

Christiane Jenkins said that further amendments to the risk register would be made in light of Spencer Palmer leaving and Frank Smith retiring. The Chair said that changes to the risk registers were now being highlighted in the report which was very helpful.

The Audit Committee noted the London Councils' Corporate Risk Register for 2021/22 which could be found attached at Appendix 2 of the report.

7. Internal Audit Update

The Audit Committee considered a report that provided members with an update in relation to the work of Internal Audit since the last update report made to the June 2021 meeting.

Matt Lock, Head of Audit & Risk Management, City of London Corporation, introduced the report. He said that the audit of recruitment and payroll adjustments had been completed and a draft report issued on ICT cyber security. Matt Lock said a way would be found to share the findings on cyber security with members. He said that progress had been very good, and reviews would be taking place on the pan London mobility schemes and parking and traffic contracts over the next couple of months. This left the ICT strategy 2020/23 which had not been started yet. Matt Lock said that there was nothing to bring to the attention of the Audit Committee. The Chair said that any confidential reports could be presented to the Audit Committee under the exempt part of the agenda.

The Chair asked whether the City of London were on target to complete the number of days set out in the table in paragraph one of the report. Matt Lock said that he was very happy with the progress being made so far.

The Audit Committee noted the contents of the Internal Audit report.

8. Business Continuity Plan

The Audit Committee received a report on the revised version 4.1 of the Business Continuity Plan (BCP) document that had been produced and approved by London Councils' Corporate Management Team (CMT) on 1 July 2021 and could be found at Appendix 1 of the report.

Roy Stanley, Head of ICT and Facilities, London Councils, introduced the report which was a 2021 (4.1) version of the Plan. The Plan continued the concept of Gold, Silver and Bronze response teams, along with names, specific responsibilities and tasks linked to those teams/individuals. Roy Stanley said that the Plan also included key lessons learned from the Covid-19 pandemic, which could be found in section 9.0 of the Plan.

The Chair asked whether the Plan would need updating as London Councils moved forward. Roy Stanley confirmed that the full review of the BCP was due to take place in January 2022. The Plan was also reviewed on a monthly basis.

Councillor Brown thanked officers for the Plan, and everyone that was responsible for getting the organisation "up and running" during the pandemic. He said that insurance was important and could have a significant impact on the organisation but there was no reference to it in the Plan. Councillor Brown said that an officer should be responsible for contacting the insurers and landlord and this should be incorporated into the BCP. Roy Stanley said that part of the Plan included liaising with the Gold and Silver teams, and this was brought out in the Plan.

The Chair asked who London Councils' insurers were. Frank Smith said that London Councils had various insurance policies including one that would pay the organisation £150,000 to find temporary alternative premises. He said that staff at London Councils also had access to the City of London's premises. Frank Smith said that the revised Plan had taken advantage of the lessons learned during the pandemic. The Plan could also include details of insurance in the future.

David Sanni confirmed that London Councils did have business continuity cover and details of this could be incorporated into the Plan. He said that there was a wide range of insurers that covered London Councils' Southwark Street building and the London Tribunals building. David Sanni said that a great deal of information was held in the cloud, and there was now an extra set of controls for London Councils' business continuity arrangements. Councillor Brown voiced concern that

insurers often made it difficult for customers to make a claim. He urged London Councils to make a claim as soon as possible in the event of catastrophe, like the loss of the building, in order to receive any pay-outs on a timely basis. Councillor Alambritis thanked officers for the excellent report, which was one of the best BCPs he had seen.

The Audit Committee:

- Noted that details of London Councils' insurance arrangements would be included in the Plan when it was next reviewed, and
- Noted the revised Business Continuity Plan v 4.1 which could be found at Appendix 1 of the report.

9. Dates of the Audit Committee Meetings for 2022/23

The Audit Committee received a report that notified members of the proposed Audit Committee meeting dates for 2022/23.

It was noted that there was an error in the date of the June 2022 Audit Committee meeting, which should be on Thursday *16 June* 2022, and not Thursday 17 June 2022 (as stated in the report).

The Audit Committee noted the dates for the meetings in 2022/23 and the error for the June 2022 Audit Committee meeting (above).

The meeting finished at 11:29am