

Minutes of the Meeting of the Audit Committee

19 March 2015

Cllr Roger Ramsey was in the Chair

Members Present:

Cllr Roger Ramsey (LB Havering)
Cllr Stephen Alambritis (LB Merton)
Cllr Simon Wales (LB Sutton)
Mr Roger Chadwick (City of London)

In Attendance:

Ciaran McLaughlin, Engagement Leader, PricewaterhouseCoopers LLP
Anna Simmonds, Internal Audit Section City of London

London Councils' officers were in attendance.

1. Declarations of Interest

Councillor Simon Wales informed Audit Committee that he was also a member of the London Councils' Grants Committee.

2. Apologies for Absence

An apology for absence was received from Councillor Jas Athwal (LB Redbridge).

3. Minutes of the Audit Committee meeting held on 26 September 2014

The minutes of the Audit Committee meeting held on 26 September 2014 were agreed as being an accurate record.

4. Internal Audit Plan 2015/16

The Audit Committee received a report of the draft internal audit plan for 2015/16, as proposed by the City of London's Internal Audit section under terms of service level agreement for financial and payroll services. The report also provided details of the proposed rolling five-year programme covering the period up to 2019/20.

David Sanni (Head of Financial Accounting, London Councils) introduced the internal audit plan 2015/16, which could be found at Appendix A of the report. He said that Anna Simmonds (Internal Audit Section, City of London) was present to answer any questions. He also said that Anna Simmonds along with her colleague, Chris Harris, have been brought in by the City from Baker Tilly to manage the internal audit service while Paul Nagle (Head of Audit & Risk Management, City of London) is on secondment for a year.

Councillor Alambritis asked why a review of the Parking and Traffic operations would not be carried out until 2018/19. Frank Smith (Director of Corporate Resources) said that a review of this area was currently taking place and the outcome would be presented to the Audit Committee on 18

June 2015. Councillor Wales asked if there would be any changes to the number of days spent on the reviews (page 9, Appendix A). Frank Smith said that 50 days would continue to be spent on reviews, including 3 days set aside for contingency. He said that the auditors would also use the 15 days planned for the grants review would be spent auditing some of the funded groups within the London Councils' Grants scheme.

The Audit Committee approved the internal audit programme for 2015/16 and the rolling five-year programme, as proposed by the City of London in Appendix A of the report.

5. External Audit Plan 2014/15

The Audit Committee considered a report that informed members of the scope of the external for London Councils, in respect of the 2014/15 financial year, as detailed in the draft audit plan attached to the report.

Ciaran McLaughlin (Engagement Leader, PricewaterhouseCoopers) presented the External Audit Plan 2014/15 report. He made the following comments:

- The Executive Summary, with PwC's responsibilities could be found on page 18 of the report;
- Details of the significant or elevated risk guidance were described on pages 21 to 23;
- The significant risks were considered to be the management override of controls, the risk of fraud in revenue and expenditure recognition and the implications of the new London Councils' Pensions Collective Investment Vehicle (CIV);
- Overall materiality level was stated on page 24 of the external audit plan;
- The Audit Committee was asked if it was aware of any risks of fraud (pages 26 and 27);
- The Audit fees could be found on page 29 – the core fees were the same as before, although the ACS Company and Pension CIV Joint Committee work would need to be factored into the costs;
- Cost arising from the objection to the 2012/13 accounts in respect of the POPLA service had been reflected in the fees. Up until the end of February 2015, this had cost approximately £75,000 (which would be recharged to the British Parking Association – BPA); and
- It was noted that four boroughs had received objections to their accounts for 2013/14 relating to the POPLA issue.

The Audit Committee approved the draft audit plan for 2014/15 as detailed in Appendix A of the report.

6. Internal Audit Reviews

The Audit Committee received a report that provided members with an update of the internal audit reviews completed by the City of London's Internal Audit section since the last meeting held in September 2014.

David Sanni introduced the internal audit reviews report. He informed members that there were five appendices (A to E) attached to the report. The following comments were made:

- *Appendix A* outlined the spotcheck on London Councils' petty cash, safe and inventory. controls. It revealed that the relevant controls were operating satisfactorily, but highlighted that the inventory list had still not been updated following the recommendations made in the 2013/14 review.
- *Appendix B* related to the spotcheck on London Councils' recruitment and payroll adjustments for 2014/15, the review found robust controls in place and no recommendations were made to improve them.

- *Appendix C* related to the follow-up exercise for London Councils' Grants programme for 2013-15. It was acknowledged that no bidding round had taken place since the recommendation requiring additional references was made, therefore, the successful implementation could not be assessed.
- *Appendix D* related to a follow-up exercise for London Councils' ICT review in February 2014. It highlighted that nine out of the eighteen recommendations were still outstanding five of which had an amber rating. It referred to a security breach which exploited a weakness in remote access controls identified during the original review. Officers have taken action to address this weakness.
- *Appendix E (page 80)* related to the follow up exercise on the London Lorry Control Scheme (LLCS) review carried out in July 2013. It revealed that one out of the six recommendations was still outstanding. The recommendation relates to the debt registration functionality of the LLCS system. The system development for this has been completed but is still subject to further testing before it can be signed off as fully functional.

The Chair asked how serious the security breach to the IT system was. Frank Smith said that a Trojan virus was placed in the server by an unknown third party, which generated random access codes over an unknown time period until it generated the access code to the system. This was discovered and quarantined. At no stage was any personal data accessed. However, lessons had been learned and amendments to the system had been made, including rearrangements to the firewall. Tiered levels of security are being put in place and a second level of user authentication is being installed when accessing the network.

Councillor Alambritis asked whether the disabling of USB drives had been considered. Frank Smith said that the Corporate Management Board (CMB) had considered this and had now decided to restrict use of external devices on the network USB ports. He stated that individuals now rarely brought in memory sticks to London Councils and all future use of USB ports would be encrypted memory sticks. Councillor Wales enquired about the PSN issues. Frank Smith said that the Government was still deciding whether to insist on local authorities having this level of security and it was currently a "grey" area.

Councillor Alambritis congratulated officers on the good work carried out on recruitment and payroll.

Councillor Wales queried the implementation dates in the reports. In Appendix D, there had been no update since 2014. He said it was difficult to ascertain whether the targets had been completed or not. Frank Smith confirmed that the table at paragraph 7 (page 47) gave the revised implementation dates. The IT strategy went to London Councils' CMB last week and an updated version would be sent to all staff at the end of the financial year. Councillor Wales said that there were still target implementation dates showing for the London Lorry Control Scheme of August 2013 (Appendix E, pages 81 and 82). It was agreed that this would be looked into.

The Audit Committee:

- Considered and commented on the contents of the internal audit reports attached at Appendices A to E of the report,
- Agreed that the target dates of August 2013 for the London Lorry Control Scheme in Appendix E would be looked into, and
- Noted that there were no significant control weaknesses identified in the reviews completed during the period.

7. Risk Management – Chief Executive's Directorate Risk Register

The Audit Committee received a report that presented members with the current Chief Executive's Directorate Risk Register.

Christiane Jenkins (Director of Corporate Governance, London Councils) introduced the CEX Risk Register. She informed members that the London Councils' directorate risk registers would be presented to the Audit Committee on a rotational basis. She said that one of the new inclusions to the risk register was the London Councils' Pensions Collective Investment Vehicle (CIV). Hugh Grover (Programme Director of LGPS CIV) and Frank Smith were present to answer any questions that members might have on the CIV. Hugh Grover informed members that Mark Boleat, City of London, was the Chair of the CIV Sectoral Joint Committee.

The Chair asked for an update on the relocation of the Parking and Traffic Appeals Service (PATAS). Frank Smith confirmed that the tenders had been received for the refurbishment work, and the prices were within the range that was originally estimated. The landlords at Angel Square, however, had asked for London Councils to vacate the building by the 24 June 2015, instead of 24 July, as originally requested. London Councils was currently in the process of trying to negotiate an increase in the rent for one month. The other alternative was to ask the contractors to complete the work on the new premises more quickly (which would be considerably more expensive). Members would be updated on the position when more information was received.

Councillor Wales asked what is considered to be a "huge financial loss" referred to on page 89 of the risk register. Frank Smith said that this would depend on the nature of the operational activity. For instance, the level applicable to the concessionary fares scheme would be different to that of a smaller service. Each service across the organisation would need to be looked at individually, including the new London Ventures and the Pensions CIV. Councillor Wales said that the risk rating without control, on page 103 did not add up to the figure of 6 (2 + 2). Christiane Jenkins confirmed that this would be amended.

The Audit Committee:

- Noted the current Chief Executive's Directorate Risk Register, and
- Agreed to amend the risk rating figures on CG8, page 103, of the CEX risk register

8. Accounting and Audit Arrangements

The Audit Committee received a report that informed members of the implications of the repeal of the Audit Commission Act 1998 and the implementation of the new Local Audit and Accountancy Act 2014 on London Councils accounting and audit arrangements from 2015/16. Under the new legislation, London Councils would no longer have the statutory obligation to prepare accounts and for the accounts to be subject to audit.

David Sanni introduced the Accounting and Audit Arrangements report. He said that from 2015/16, London Councils no longer had a statutory obligation to produce a set of annual audited accounts under the new act, although London Councils does have other existing obligations other than those currently imposed by the Audit Commission Act. The DCLG would be issuing guidance on voluntary arrangements for joint committees in May 2015 and a procurement exercise would have to be carried out to ensure an external auditor was in place for the start of the planning phase of the 2015/16 audit. David Sanni said that it was recommended that London Councils continue to prepare accounts in accordance with the Local Authority Accounting Code of Practice, as this was consistent with other local authority bodies.

Frank Smith said that the Joint Committee had been excluded from the new accounting arrangements. He said that London Councils had over £90 million worth of transactions going through its annual statutory accounts and it appeared odd that London Councils had not been considered for inclusion in these new arrangements. DCLG was willing to discuss this issue further with London Councils and we were currently awaiting their guidance. Frank Smith said that following the receipt of guidance from DCLG a procurement exercise for a new auditor should be carried out and audited accounts should continue to be produced. It was important for members to continue to receive this financial information. The Chair said that, although the accounts were no

longer required, this seemed like the sensible thing to do. He said that members now needed to agree to allow officers to procure an external auditor.

The Audit Committee:

- Noted that under the Local Audit and Accountability Act 2014, London Councils would not have a statutory obligation to prepare annual accounts that were subject to audit with effect from 1 April 2015;
- Noted that London Councils had existing obligations outside of the Audit Commission Act 1998 to prepare and arrange the independent audit of annual accounts and the benefits of continuing with this practice;
- Agreed for London Councils officers to commence arrangements to procure an external audit service for 2015/16 onwards;
- Considered a revision to its Terms of Reference to include the responsibility to make a recommendation to the Leaders Committee on the appointment, reappointment and removal of the external auditor; and
- Agreed that London Councils would continue to prepare accounts in accordance with the Local Authority Accounting Code of Practice (the Code).

9. Treasury Management Update

The Audit Committee received a report that provided members with an update on London Councils' treasury management strategy. London Councils' cash balances are held by the City of London under the service level agreement for the provision of financial support services. It was agreed at the meeting of the Audit Committee in September 2009 that the Committee would receive annual reports on the City of London's treasury management activities.

David Sanni introduced the Treasury Management update report, which is presented to members on an annual basis and was for noting. The City of London indemnifies London Councils against any potential future losses of cash balances (paragraph 5, page 113). Roger Chadwick informed the Audit Committee that the City of London's Court of Common Council had approved the Treasury Management Strategy for 2015/16. Councillor Wales said that UK companies were still being invested in, even though the UK had lost its triple A rating. Roger Chadwick said that the City was "risk averse".

The Audit Committee noted and commented on the City of London's Treasury Management Strategy Statement and Annual Investment Strategy for 2015/16, as at Appendix A of the report.

10. Date of Audit Committee 2015/16

The Audit Committee received and agreed a report that notified members of the proposed Audit Committee meeting dates for 2015/16

The meeting closed at 11.20am

Action Points

Item	Action	Progress
7. CEX Risk Register	Agreed to amend the risk rating figures on CG8, page 103	
8. Accounting & Audit Arrangements	Agreed for London Councils officers to commence arrangements to procure an external audit service for 2015/16 onwards	