

**M O P A C**

**MAYOR OF LONDON**  
OFFICE FOR POLICING AND CRIME

**DIRECTORATE OF AUDIT, RISK AND ASSURANCE**  
**Internal Audit Service to the GLA**

**REVIEW OF LONDON'S EUROPEAN OFFICE**

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### 1. Background

1.1 This review has been carried out as part of the Greater London Authority (GLA) 2014/15 audit plan. London's European Office (LEO) was created in 2001 to ensure that the capital's interests are heard and taken into account by European Union policy makers. The office also has responsibility for making GLA colleagues aware of opportunities for EU grant funding and where necessary helping them to apply for such grants

1.2 At the outset of the review, the potential risks identified to achieving the objectives of the LEO were:

- Lack of a defined strategy and business plan means that the LEO's aims and objectives are not achieved;
- Decisions made by the LEO are not appropriate (i.e. not in accordance with business plan/ GLA policy);
- The governance structure is ineffective and does not support a sound decision making process;
- Management information supplied by the LEO is not accurate;
- Inappropriate expenditure is incurred by the LEO;
- Policies and procedures are not compliant with UK and Belgium legislative requirements;
- GLA policies and procedures are not complied with.

We are looking to provide assurance that the key risks are being effectively managed.

1.3 The LEO is structured around a co-operation agreement between the GLA, Transport for London (TfL), the London Fire and Emergency Planning Authority (LFEPA) and the Metropolitan Police Service (MPS). Work plans based on the co-operation agreement are reviewed annually with the partners, and the costs of the office are divided between the four (with the GLA paying the majority amount).

1.4 The LEO is managed by a Head of Office, with two Senior EU Policy Officers and a part-time Office Administrator who also performs the functions of a buildings manager. The Head of Office reports to the Head of Government and EU Relations within City Hall.

### 2. Audit Assurance

#### **Adequate**

Key risks are being managed effectively; however, some controls regarding the Co-Operation Agreement, work plans, expense payments and debtor invoices need to be improved to ensure business objectives are met.

### 3. Areas of Effective Control

- 3.1 A Co-Operation Agreement is in place between the GLA, TfL, LFEPA and the MPS that establishes the overall objectives of the LEO. Work plans are established for each financial year with each of the individual members of the agreement, and an update is provided at six monthly intervals of the work undertaken on these plans.
- 3.2 Expenditure against budget is provided on a monthly basis to the central GLA finance team, with copies of all invoices verified against the bank account statement. Financial information is provided in a timely manner and all associated documents supplied and authorised as appropriate.
- 3.3 Expenditure is managed effectively within LEO, with invoices paid in a timely manner, local utilities and other services procured and managed efficiently and petty cash controlled appropriately. All expenditure is justified and supported by suitable information.
- 3.4 The LEO office in Brussels moved in 2010 to a smaller office to reduce costs, sharing a meeting room and other facilities with another organisation on the same floor. The Office Manager is also shared with this other body (British Councils) to reduce costs. Efforts are being made to rent out three additional desks within the LEO to make the office more cost effective, with one already occupied and the two remaining expecting to have rental terms agreed in the near future.

### 4. Key Risk Issues for Management Action

- 4.1 The original Co-Operation Agreement has not been regularly reviewed to ensure continues to fulfil all the requirements of its members. Without an up to date agreement, agreed and signed by all its members, the strategy may not be legally binding.
- 4.2 Individual work plans have been introduced for each organisation, however, the outcomes from each of the stated aims have not been measured to ensure their effectiveness. An effective assessment of performance against the annual plans will help to identify the priorities of the LEO and allocate the resources available appropriately in the future.
- 4.3 Travel and accommodation expenses are frequently booked close to the date of travel and using personal credit cards rather than the GLA travel booking process. Best value may not be achieved through advanced booking discounts and expense claims have to be processed through the payroll system.
- 4.4 A number of debtor invoices took an excessive time to process as a result there was a delay in receiving payments.

### 5. Review Objectives

5.1 Our overall objective was to review the adequacy of the control framework in place for the London European Office. In particular, we sought to give an assurance that:

- LEO has a clearly defined strategy and business plan that defines its aims and objectives and there is evidence these are appropriately authorised and regularly reviewed, with a suitable governance structure in place;
- Progress against the LEO's stated aims and objectives is reviewed and monitored to ensure appropriate progress is made against these plans;
- That there is a process in place to set the standards for management information supplied by the LEO, and then monitor and scrutinise the information supplied;
- Expenditure incurred by the office is appropriately authorised and recorded, in accordance with GLA policies and procedures;
- Local legislation is complied with regarding terms and conditions of employment and procurement, in addition to GLA policies.

### 6. Scope

6.1 We reviewed the effectiveness of the control framework in place supporting the operation of the LEO. The review focussed on the controls in place within the GLA to ensure that the Brussels office operated according to GLA standards, and that appropriate levels of financial oversight are in place. The review examined the business planning and performance management processes within the LEO, as well as the controls in place to manage expenditure and income streams.

This audit was also going to include a review of terms and conditions of employment in relation to working in the Eurozone, but this is being covered in an external review currently being undertaken by Deloitte.

### 7. LEO Business Plan and Progress against Aims and Objectives

- 7.1 The GLA established the LEO in 2001 to ensure the representation and promotion of funding partners' interests in the European Union (EU) policy process. The number of organisations that make up the LEO have changed in the time since the original agreement, and now consist of the GLA, TfL, LFEPA and the MPS.
- 7.2 The LEO is established in a formal Co-Operation Agreement that agrees the high level joint aims and objectives of the LEO, the obligations of the GLA as the administrative party, the role of the Head of Office, the annual work plans and the payment arrangements for each member. The Agreement contains the strategy of the LEO in terms of how it will discharge its responsibilities to its members. It was signed by representatives of all the member organisations and forms the basis of the LEO's operations.
- 7.3 We found that the original Co-Operation Agreement was intended to be regularly reviewed, but there is no evidence that the current arrangements for the LEO are supported in an up to date Agreement. As the GLA is the host organisation, there is a risk that without a signed Agreement between all members that the strategy of the LEO is not up to date, and that the current arrangements are not legally binding and do not represent a fair reallocation of costs.

#### **Recommendation**

The Co-Operation Agreement between the GLA, TfL, LFEPA and the MPS is reviewed to ensure that the aims and objectives are up to date and relevant and that the division of costs between the parties involved is fair and equitable.

- 7.4 Individual work plans are agreed annually between the LEO and each of the member organisations. The member organisations do not have a proportion of the work plan allocated to them based on the level of contribution they make to the costs. Work undertaken is based on the potential effect on London of any of the EU policies or priorities, whatever area that may be in.
- 7.5 These formal work plans are agreed each year between the LEO and representatives of each member, with six monthly activity reports provided by the LEO. An overall work plan for the office is signed off by the Mayor's Chief of Staff and Deputy Mayor for Policy and Planning. We found that there has not been a full annual review of progress against the individual work streams undertaken.
- 7.6 The work plans often contain broad aims regarding the influencing of EU policy and, as such, it is difficult to establish performance measures to assess progress. Without effective management of these plans, it will be difficult to assess the success of the work undertaken, and decide the priorities for the following year. A full assessment of the progress against individual work streams will help to allocate resources more effectively and lead to realistic targets being set. There is a risk that these work plans will lead to the LEO agreeing to tasks it does not have the resources to undertake.

### **Recommendation**

A review of progress against the individual work streams is undertaken to assess delivery against the planned objectives. This should be used to inform resource planning and establish realistic and achievable work plans.

## 8. Management Information Supplied by the LEO

- 8.1 The scheme of delegation clearly outlines the financial procedures for the LEO, establishing the processes to be followed for purchasing, invoices, sales invoices, petty cash, one off payments and expenses claims. It also provides details of the procedures to be followed for the monthly and quarterly expenditure and budget monitoring information provided to the finance team at City Hall. The scheme of delegation was updated in September 2014.
- 8.2 The LEO has its own bank account in Brussels to pay local suppliers, rent and utility companies. This account is reconciled and replenished regularly by the GLA to ensure there are sufficient funds to pay their obligations. A monthly return is provided by the LEO to the GLA central finance team showing the bank statement for the previous month with all expenditure itemised. Each line of expenditure is linked to a scanned copy of the relevant invoice and verified by the GLA team. A petty cash reconciliation is also provided. No issues regarding monitoring information were found in this area.

## 9. Purchasing and Expenses

- 9.1 All purchase requisitions are raised by the Head of Office at the LEO and sent to the Head of Government and EU Relations at City Hall for authorisation. Once the requisition has been authorised, it is returned to the Brussels office for a purchase order to be raised (the majority of purchases are made locally, so do not utilise the GLA procurement function) by the Office Administrator. When the goods or services are received, the Head of Office authorises payment via the LEO bank account. It was noted during testing that the bank account settings allowed the authorising officer to also raise a payment request as well as making the online payment. This was raised with the bank at the time of the audit and the appropriate control put in place on the system.
- 9.2 We found that all expenditure we tested was appropriately authorised and reconciled to the bank account statements with appropriate supporting documentation. There was evidence that reasonable steps to obtain best value from suppliers were taken. There was minimal usage of the petty cash, and where it was utilised the expenditure was reasonable and appropriate.
- 9.3 The LEO rents a desk within the office to a representative of Bristol City Council under a serviced office agreement. Negotiations are underway with Bristol Council to rent a further two desks which will offset some of the rental costs of the building. The additional desk already rented has been leased under a three year agreement. The charging mechanism is set by the GLA facilities management team based on a division of total costs.



## FINDINGS AND RECOMMENDATIONS

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- 9.4 The LEO also receives funding from its three partners, the MPS, LFEPA and TfL. This funding is received at the start of the financial year, and invoices are raised via the GLA for this. We found that some invoices took a considerable amount of time to be raised from the time of the original request being sent from the LEO office. There is a risk that payment may not be received if an invoice is not raised in a timely manner.

### **Recommendation**

All debtor invoices are raised within 30 days of the service being provided.

- 9.5 Staff within the LEO incur travelling expenses, with the majority being between the Brussels Office and City Hall. Eurostar tickets, hotels and meals are purchased on personal credit cards and reimbursed through the payroll system. All claims sampled were for appropriate expenditure, had supporting documentation attached and were authorised correctly.
- 9.6 We found that the majority of the travel and hotel expenses sampled were booked relatively close to the day of travel. However, if the meetings the travel was to attend were known in advance, an advance booking could have reduced the cost of rail or hotel fees. If the GLA travel booking process was also utilised for those trips known in advance, it would be more efficient in terms of repaying expense claims and employees would not have to incur expenditure on their own credit cards.

### **Recommendation**

Wherever possible, travel and accommodation is booked in advance, and consideration is given to utilising the GLA travel booking process.

- 9.7 LEO staff are all based in Brussels and their UK salary is converted (at the rate at the time their employment contracts were agreed) and paid in Euros. Expenses incurred whilst visiting the UK for GLA meetings at City Hall are converted to Euros for payroll purposes. These expenses used to be paid at the rate agreed at the time the employment contract was agreed, but are now paid at the rate on the day the expenditure was incurred. This rate is established by the GLA Treasury Services.

## 10. Terms and Conditions of Employment

- 10.1 This area has not been included in the audit review as it is the subject of an external review into employment terms and conditions, the most significant area examined being that of the exchange rate at which LEOs monthly salary is converted at. This piece of work is still ongoing.

**RISK AND AUDIT ASSURANCE STATEMENT – DEFINITIONS**

Overall Rating	Criteria	Impact
<b>Substantial</b>	There is a sound framework of control operating effectively to mitigate key risks, which is contributing to the achievement of business objectives.	There is particularly effective management of key risks contributing to the achievement of business objectives.
<b>Adequate</b>	The control framework is adequate and controls to mitigate key risks are generally operating effectively, although a number of controls need to improve to ensure business objectives are met.	Key risks are being managed effectively, however, a number of controls need to be improved to ensure business objectives are met.
<b>Limited</b>	The control framework is not operating effectively to mitigate key risks. A number of key controls are absent or are not being applied to meet business objectives.	Some improvement is required to address key risks before business objectives can be met.
<b>No Assurance</b>	A control framework is not in place to mitigate key risks. The business area is open to abuse, significant error or loss and/or misappropriation.	Significant improvement is required to address key risks before business objectives can be achieved.

**RISK RATINGS**

Priority	Categories recommendations according to their level of priority.
1	Critical risk issues for the attention of senior management to address control weakness that could have significant impact upon not only the system, function or process objectives, but also the achievement of the organisation’s objectives in relation to: <ul style="list-style-type: none"> <li>• The efficient and effective use of resources</li> <li>• The safeguarding of assets</li> <li>• The preparation of reliable financial and operational information</li> <li>• Compliance with laws and regulations.</li> </ul>
2	Major risk issues for the attention of senior management to address control weaknesses that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall organisational objectives.
3	Other recommendations for local management action to address risk and control weakness that has a low impact on the achievement of the key system, function or process objectives ; or this weakness has exposed the system, function or process to a key risk, however the likelihood is this risk occurring is low.
4	Minor matters need to address risk and control weakness that does not impact upon the achievement of key system, function or process or process objectives; however implementation of the recommendation would improve overall control.

Ref.	Findings and Risk	Priority	Recommendations	Accepted	Management Response and Responsibility	Target Date
7.3	We found that the original Co-Operation Agreement was intended to be regularly reviewed, but there is no evidence that the current arrangements for the LEO are supported in an up to date Agreement. As the GLA is the host organisation, there is a risk that without a signed Agreement between all members that the strategy of the LEO is not up to date, and that the current arrangements are not legally binding and do not represent a fair reallocation of costs.	2	The Co-Operation Agreement between the GLA, TfL, LFEPA and the MPS is reviewed to ensure that the aims and objectives are up to date and relevant and that the division of costs between the parties involved is fair and equitable.	Yes	The cooperation agreement was previously agreed in 2009 under the current administration. However the agreement will be amended to reflect the changes to the functional bodies who are signatories to it. This will be concluded prior to invoices being issued for the 2015/16 financial year.	April 2015
7.6	The work plans often contain broad aims regarding the influencing of EU policy and, as such, it is difficult to establish performance measures to assess progress. Without effective management of these plans, it will be difficult to assess the success of the work undertaken, and decide the priorities for the following year. A full assessment of the progress against individual work streams will help to allocate resources more effectively and lead to realistic targets being set. There is a risk that these work plans will lead to the LEO agreeing to tasks it does not have the resources to undertake.	3	A review of progress against the individual work streams is undertaken to assess delivery against the planned objectives. This should be used to inform resource planning and establish realistic and achievable work plans.	Yes	The functional bodies agree their work plans and are sent progress reports. LEO's overall work programme is signed off the Head of Government and EU Relations and the Chief of Staff. However the Head of Government and EU relations will implement a biannual review of progress against the work streams with the relevant organisations. This could form part of the revised cooperation	With immediate effect

Ref.	Findings and Risk	Priority	Recommendations	Accepted	Management Response and Responsibility	Target Date
					agreement as noted in 7.3	
9.4	The LEO also receives funding from its three partners, the MPS, LFEPA and TfL. This funding is received at the start of the financial year, and invoices are raised via the GLA for this. We found that some invoices took a considerable amount of time to be raised from the time of the original request being sent from the LEO office. There is a risk that payment may not be received if an invoice is not raised in a timely manner.	3	All debtor invoices are raised within 30 days of the service being provided.	Yes	A reminder has been issued that all debtor invoices should be raised within 30 days	With immediate effect
9.6	We found that the majority of the travel and hotel expenses sampled were booked relatively close to the day of travel. However, if the meetings the travel was to attend were known in advance, an advance booking could have reduced the cost of rail or hotel fees. If the GLA travel booking process was also utilised for those trips known in advance, it would be more efficient in terms of repaying expense claims and employees would not have to incur expenditure on their own credit cards.	3	Wherever possible, travel and accommodation is booked in advance, and consideration is given to utilising the GLA travel booking process.	Yes	It is not always possible to make bookings very far in advance to take advantage of cheaper fares and bookings are on the whole made when dates of travel are known. However where possible LEO will use the GLA corporate credit card for paying for hotels and travel	With immediate effect