
REPORT OF OVERVIEW AND SCRUTINY COMMITTEE

MEETING HELD ON 19 OCTOBER 2004

Chair: * Councillor Jean Lammiman

Councillors: * Blann * Marie-Louise Nolan
 * Gate (1) * Osborn
 * Mitzi Green * Pinkus
 * Ingram * Thammaiah
 * Myra Michael (1) * Versallion

* Denotes Member present
 (1) Denotes category of Reserve Members

PART I - RECOMMENDATIONS
RECOMMENDATION I - Annual Report of the Overview and Scrutiny Committee 2003/04

Your Committee, having been reminded of the requirement under Article 6 of the Constitution to report annually to full Council on its workings over the past year, considered its draft annual report for 2003/04.

The annual report provided an overview of the work undertaken over the past year, supported by individual contributions from each of the scrutiny bodies. It also set out the outline scrutiny work programme for 2004/05.

It was noted that the Chairs and Vice Chairs of the scrutiny bodies had had significant involvement in the production of the report, and that each of the Scrutiny Sub-Committees had considered and agreed their respective contributions. The Chair was pleased to note that some photographs had been included in the report to enliven its presentation.

The Committee therefore endorsed the report and

Resolved to RECOMMEND:

That the Committee's annual report for 2003/04 and the outline work programme for 2004/05 contained therein, as now reported in accordance with the requirements of the Constitution, be noted.

(See also Minute 211).

RECOMMENDATION II - Establishment of an Audit Committee

Your Committee, having considered proposals for the establishment of an Audit Committee at its meetings on 27 April and 1 July 2004, received a report of the Director of Financial and Business Strategy which further explored issues raised at the last meeting. In particular, the report addressed concerns expressed regarding the Terms of Reference of the proposed Committee, and the impact thereof on the Terms of Reference of the Overview and Scrutiny Committee. Your Committee was invited to now make a recommendation to Council on the final structure of the proposed Audit Committee.

Members considered the pros and cons of the two options for the structure of the proposed Committee. Some Members suggested that, in light of the importance of the issues to be considered by the new Committee, it should be a stand-alone Committee of the Council as this would have a higher profile than a Sub-Committee of the Overview and Scrutiny Committee. Other Members argued, however, that this would not impact on the effectiveness or robustness of the proposed Committee, and pointed to the example of the existing Scrutiny Sub-Committees.

It was noted that, if the Audit Committee were established as a subsidiary body of the Overview and Scrutiny Committee, Members of the Executive would not be able to serve on it. A Member suggested that, given that the new Committee would be the main forum for consideration of external audit reports, the Portfolio Holder responsible for taking forward the issues identified in those reports should be a member of that Committee. In addition, he felt that other Executive Members with relevant knowledge

and expertise should not be precluded from serving on the new body. Other Members commented that best use should be made of the expertise of Members of Council.

Other Members expressed concern, however, that the participation of Executive Members in the proposed Committee may give rise to a conflict of interest, as the Executive had a vested interest in the activities being audited. It was also noted that best practice suggested that few, if any, members of an Audit Committee should be drawn from the Executive.

On being invited to express a preference for one of the two options for the structure, the majority of Members indicated a preference for the new Audit Committee to be a stand-alone Committee of Council, and it was therefore agreed to make a recommendation to Council to this effect. However, in order to address the issue of potential conflicts of interest, it was also agreed to recommend that the membership of the new Committee include few, if any, Executive Members. In addition, it was agreed to recommend that the relevant Portfolio Holder should attend meetings of the body, particularly those due to receive reports from the Council's external auditors, but should not be a full voting member of the Committee.

There was some discussion as to the size of the new Committee, and a Member expressed concern that there may be difficulty in establishing a Committee of 9 or 11 Members. It was noted, however, that the existing Audit Committee had only 5 Members and it was therefore agreed to recommend to Council that the new Committee be of a similar size.

Members requested that the Audit Committee report regularly to the Overview and Scrutiny Committee, particularly on any emerging issues relating to the Council's corporate governance arrangements. It was

Resolved to RECOMMEND:

That (1) a new Committee of the Council (the Audit Committee) be established with the Terms of Reference set out at Appendix I;

(2) the Committee's size be restricted, for example, to comprise 5 Members;

(3) the membership of the Committee include few, if any, Executive Members;

(4) the Finance and Performance Management Portfolio Holder attend meetings of the Committee as appropriate but not be appointed a full voting member of the Committee; and

(5) the Terms of Reference of the Overview and Scrutiny Committee be amended to delete items (k) and (l), as highlighted in Appendix II.

(See also Minute 212).

APPENDIX I**Terms of Reference of the Audit Committee**

- a) To approve the financial statements of the authority including the Statement of Internal Control
- b) To consider matters arising from External Audit work which are required to be communicated to those charged with governance under the Statement of Auditing Standards (SAS610)
- c) To receive and consider the annual audit letter and make recommendations as appropriate
- d) To scrutinise/comment on the Internal Audit three year strategic plan and annual plan
- e) To monitor progress against the Internal Audit plan and receive summaries of audit work completed and key recommendations
- f) To scrutinise/comment on the External Audit plan
- g) To monitor progress against the External Audit plan and receive summaries of audit work completed and key recommendations
- h) To review the management response to audit recommendations and progress on implementation of recommendations
- i) To recommend action where audit recommendations are not being implemented
- j) To monitor the Council's approach to tackling fraud and corruption and promote an anti-fraud culture

APPENDIX II

Terms of Reference of the Overview and Scrutiny Committee

The overview and scrutiny committee has the following power and duties:

- a) to co-ordinate and manage the scrutiny function for the Council
- b) to develop a work programme for scrutiny in consultation with the Executive
- c) to develop and oversee protocols for reviews and referrals
- d) to have specific responsibility for policy development support and scrutiny of the civic budget, statutory plans as appropriate and major cross-cutting issues
- e) to examine the council's performance generally, using information from Best Value implementation plans, Best Value Performance Indicators, the comprehensive performance assessment, and other performance management frameworks
- f) to examine the Council's corporate governance framework and make recommendations for change as appropriate
- g) to be responsible for the use of allocated resources for scrutiny to support its functions
- h) to establish such sub-committees as it considers necessary to achieve effective scrutiny of the Executive and senior officers of the Council
- i) to review, make reports and make recommendations to the Council and/or the Executive in respect of any Council functions
- j) to consider, report and make recommendations on any matter affecting the area and/or those who live, work or travel through Harrow
- k) to receive and consider the Audit Management Letter and make recommendations as appropriate**
- l) to receive and consider the Annual Plan and the Annual Report of the Chief Internal Auditor and make recommendations as appropriate**
- m) to report to the Council annually on the work of the scrutiny function
- n) to conclude reviews promptly, normally within six months

PART II - MINUTES

204. **Attendance by Reserve Members:**

RESOLVED: To note the attendance of the following duly appointed Reserve Members:

<u>Ordinary Member</u>	<u>Reserve Member</u>
Councillor Ann Groves	Councillor Gate
Councillor Seymour	Councillor Myra Michael

205. **Declarations of Interest:**

RESOLVED: To note that there were no declarations of interest made by Members present in respect of the items on the agenda.

206. **Arrangement of Agenda:**

RESOLVED: That (1) in accordance with the Local Government (Access to Information) Act 1985, the following late item be admitted to the agenda by virtue of the special circumstances and grounds for urgency detailed below:-

<u>Agenda Item</u>	<u>Special Circumstances/Grounds for Urgency</u>
10. Establishment of an Audit Committee	<p>Consultation on the report had only just been completed.</p> <p>The Committee had requested that a further report on the establishment of an Audit Committee be submitted to this meeting at its last meeting on 1 July 2004.</p>

(2) all items be considered with the press and public present with the exception of the following items for the reasons set out below:

<u>Agenda Item</u>	<u>Reason</u>
19. Internal Audit Annual Report 2003/04	The report contains exempt information under Paragraphs 1, 12 and 14 of Part I of Schedule 12A to the Local Government Act 1972 (as amended) in that it contains information relating to a particular employee of the Authority, advice received, information obtained or action to be taken in connection with any legal proceedings by or against the authority; and action taken in connection with the prevention, investigation or prosecution of crime.
20. Business Transformation Partnership	The report contains exempt information under Paragraph 8 of Part I of Schedule 12A to the Local Government Act 1972 (as amended) in that it contains information relating to expenditure proposed to be incurred by the Authority under a particular contract.

207. **Minutes:**

RESOLVED: That the minutes of the meeting held on 1 July 2004, having be circulated, be taken as read and signed as a correct record.

208. **Public Questions:**

RESOLVED: To note that no public questions were put at the meeting under the provisions of Overview and Scrutiny Procedure Rule 8.

209. **Petitions:**

RESOLVED: To note that no petitions were received at the meeting under the provisions of Overview and Scrutiny Procedure Rule 9.

210. **Deputations:**

RESOLVED: To note that no deputations were received at the meeting under the provisions of Overview and Scrutiny Procedure Rule 10.

211. **Annual Report of the Overview and Scrutiny Committee 2003/04:**

Further to Recommendation I above, it was

RESOLVED: That the annual report for 2003/04 be endorsed.

212. **Establishment of an Audit Committee:**

Further to Recommendation II above, it was

RESOLVED: That the new Audit Committee be requested to report regularly to the Overview and Scrutiny Committee, particularly on any emerging issues relating to the Council's corporate governance arrangements.

213. **Statement of Internal Control:**

The Committee received a report of the Director of Financial and Business Strategy, which invited Members to comment on the draft Statement of Internal Control for 2003/04.

At the meeting, updates were provided on the areas for improvement identified in Section 5 of the draft Statement of Internal Control. In particular, it was noted that a new Director of Corporate Governance had been appointed, and that it was intended to submit regular reports to the Committee on the development of the Council's corporate governance arrangements. In response to Members' questions, further information was provided on the process and timetable for the development of an action plan for the Community Strategy, and on the proposals to develop a corporate fraud team and departmental risk registers. The work to be undertaken on reviewing the scheme of delegation was welcomed. A Member also felt that the actions set out in Section 5 were indicative of the step change that had been made by the Council; he was pleased that there was now recognition of the need for systems to back up the process of change, rather than it simply being assigned to a champion to take forward.

Members suggested some minor amendments to the content of the Statement of Internal Control, specifically that the wording in Sections 1 and 3(d) be amended to read "effectively, efficiently and economically", and that reference be made to working smarter. With regard to the covering report, it was also requested that, in future reports, more information be given on the consultation carried out, and that the position with regard to legal observations be clarified.

It was noted that the Statement of Internal Control would be submitted to the new Audit Committee for approval in due course as part of the Statement of Accounts, and that an action plan to deliver the improvements set out in Section 5 would be drawn up. It was agreed that the final Statement of Internal Control, together with the action plan, be included on the agenda for the Committee's next meeting, and that the relevant minute of this meeting be forwarded to the Audit Committee for information. Members also requested that they be kept informed of any issues arising related to risk. It was otherwise agreed that issues being dealt with by the Audit Committee should only be brought to the Overview and Scrutiny Committee by exception, and that any issue specific to a particular Scrutiny Sub-Committee should be forwarded to the relevant Chair in order that they could decide whether it should be considered.

RESOLVED: That (1) regular updates on corporate governance be submitted to this Committee;

(2) the final Statement of Internal Control, together with the action plan to deliver the improvements set out in Section 5, be included on the agenda for the November meeting of this Committee;

(3) the relevant minute of this meeting be forwarded to the Audit Committee for information;

(4) the Overview and Scrutiny Committee be kept informed of issues arising related to risk; and

(5) issues being dealt with by the Audit Committee only be reported to the Overview and Scrutiny Committee by exception, and items on areas of interest to the Scrutiny Sub-Committees be forwarded to the relevant Sub-Committee.

214. **Internal Audit Annual Report 2003/04:**

Members considered a report of the Director of Financial and Business Strategy, which set out the annual report of the Internal Audit service for 2003/04. The annual report summarised Internal Audit activity during 2003/04 and the findings arising therefrom. The Committee also considered a confidential appendix to the annual report, which provided further information on cases of financial irregularity. The meeting was advised that future reports on Internal Audit activity would be submitted to the Audit Committee.

Concern was expressed that, while the annual report included figures for the percentage of controls operating effectively in particular areas, it did not give an indication of the relevant importance of the controls, nor did it provide information on how Harrow's performance compared against other authorities. It was advised that there was no benchmarking data to enable this comparison to be made although there had been a small improvement in the Council's core financial systems since the previous year. For the future risk registers would be an important tool in monitoring changes in the control environment.

It was noted that action plans had been agreed in a number of areas to address the issues arising from Internal Audit reviews, and it was suggested that it would be useful to know the timescales for implementation of the action plans. In particular, Members expressed an interest in the action plan drawn up in response to the reviews undertaken in care establishments, and especially in the work being done to develop guidance on IT controls; it was suggested that the action plan be submitted to the Health and Social Care Scrutiny Sub-Committee as an information item. In addition, interest was expressed in the action plan agreed in response to the review of planning for critical incidents in schools, and in the draft IT security policy; it was suggested that the latter be submitted to the Overview and Scrutiny Committee.

It was also noted that there had been a number of follow-up reviews of previous audit recommendations. An update was provided, in response to a Member's query, on the work under way to strengthen arrangements with Workline for Criminal Records Bureau checks. The Member suggested that it may be useful to have a brief information item on this at a future meeting. In addition, it was noted that there had been a follow-up review of disabled adaptations; a Member highlighted that scrutiny had previously undertaken a review of this matter which also needed to be followed up. It was suggested that this be brought to a future meeting.

With regard to the cases of financial irregularity, Members requested that the table in the annual report showing the value of such cases also show the amount recovered. There was also a detailed discussion of issues arising in the confidential appendix. In relation to case 1, officers were requested to report back on the options which had been considered once it was clear that the amount still unrecovered would not be reimbursed, and to take forward Members' concern at the lack of complete project plans. It was agreed that these matters also be referred to the new Audit Committee.

Concern was expressed with reference to case 2 that a significant proportion of the monies had still not been recovered. Members requested that this issue be looked at as a matter of urgency and also referred to the Audit Committee. In addition, it was requested that Members be provided with clarification on an issue relating to case 4 and that this matter also be referred to the Audit Committee. Members noted that the insurance team would be circulating information to officers in order to address issues arising from cases 7 and 9.

In response to Members expressing general concern about the cases of financial irregularity, the meeting was reminded of a number of steps being taken by the Council to improve its financial management, specifically, the establishment of the Corporate Fraud Team, the introduction of new financial regulations and the roll-out of a financial management training programme. These measures were welcomed.

Members reiterated their requests that the Committee receive by-exception reports, particularly on issues relating to risk and corporate governance, and that information items on areas of interest to Scrutiny Sub-Committees be forwarded to the relevant Sub-Committee.

RESOLVED: That (1) the findings set out in the Internal Audit Annual Report for 2003/04 and, in particular, the key conclusions set out at paragraph 47, be noted;

(2) the further information requested on the cases of financial irregularity, as outlined above, be provided;

(3) officers be requested to undertake the actions outlined above in relation to the cases of financial irregularity;

(4) the matters identified above be referred to the Audit Committee.

215. **Performance Management - Strategic Performance Report:**

The Committee considered a report of the Director of Organisational Performance which advised of the revised approach to performance management and quarterly monitoring adopted by Cabinet, and provided an example of the new format of performance monitoring report. The new report sought to bring together the key performance issues for the whole Council and was based on the key domains of the Council's activities, in order that Members could take a strategic view of performance rather than look at issues in Departmental silos. It was proposed that the Committee use the Strategic Performance Report to monitor key elements of the Corporate Improvement Plan 2004/05, and that the Committee receive the report on a quarterly basis in place of the quarterly Best Value Performance Indicator report and the Improvement Plan progress report.

The new format, and in particular its clarity, was welcomed. It was suggested that it would be useful if the report also included the status of each key performance area in the previous period, in order that Members could plot progress. In addition, Members highlighted that there was a need to consider how to reflect the work of scrutiny in the report.

The circumstances surrounding some of the performance issues were discussed and it was noted that there had been recent developments, such as the publication of Ofsted reports, which would affect the status of some key performance areas. Officers undertook to ensure that these were reflected in the next report. The Chair was also concerned that the Committee should continue to look at certain key issues, such as the improvement of the Council's IT, in more depth; she suggested that the Committee receive updates on this at alternate meetings. It was suggested that another issue which needed to be looked at was the role of personnel and the management of data on the employee base.

The Chair congratulated officers on the production of the report, and felt that it represented a huge step forward.

RESOLVED: That (1) the report be noted and the Committee continue to receive the Strategic Performance Report on a quarterly basis; and

(2) the quarterly Best Value Performance Indicator report and the Improvement Plan progress report no longer be submitted to the Committee.

(See also Minute 216).

216. **Improvement Plan 2004/05:**

Members received a report of the Director of Organisational Performance, which set out the Council's Improvement Plan for 2004/05. The Plan drew together the different strands of improvement activity taking place across the Council, and set out a programme of further actions until 2006.

Members congratulated officers on the new improvement plan, and commented that it was easy to read. It was suggested that an index be inserted into the plan to show what was in each section and that where information was duplicated, it be put into different formats such as graphs and tables.

Having agreed that key elements of the Improvement Plan be monitored on a quarterly basis via the Strategic Performance Report, Members requested that the parts of the Strategic Performance Report which related to the Scrutiny Sub-Committees also be referred to the relevant Sub-Committees as an information item.

RESOLVED: That (1) the Improvement Plan 2004/05 be noted;

(2) key elements of the Improvement Plan be monitored on a quarterly basis via the Strategic Performance Report; and

(3) the parts of the Strategic Performance Report relating to a particular Scrutiny Sub-Committee also be referred to that Sub-Committee as an information item.

(See also Minute 215).

217. **Scrutiny Review of the New Harrow Project:**

The Committee received the report of the Scrutiny Review of the New Harrow Project (NHP).

The review had examined the overall concept of the New Harrow Project, and had also included case studies of the roll-out of the Public Realm Maintenance services to Areas 2 and 3, and the community schools pilot. The report of the latter case study had already been considered by Cabinet in July 2004.

Comments on the report having been invited, a Member stated that, while he supported a lot of the recommendations arising from the review, he was unable to endorse the report. He had concerns about the methodology and conclusions of the review group, and felt that there was insufficient evidence to support the assertions made. He also felt that the review had not clearly defined what was meant by the NHP, and was disappointed that it had not examined issues around value for money, or alternative models for the organisation of the Council.

Members who had participated in the review group commented that it would have been helpful to have heard the Member's comments earlier. The importance of Member involvement, as set out in Recommendation 8 of the review report, was highlighted. With regard to evidence for the recommendations, a Member who had not been involved in the review suggested that, in any scrutiny review, review group members were looking at a set of inferences. In light of the work undertaken by the review group, the inferences could be validated from the evidence and were sufficiently broad to be supportable. He also pointed out that to have sought further evidence would have required an even greater level of involvement and resources.

The Chair, who had led the review, added that the review group would be continuing to examine the NHP and that the next phase of the review group's work would address many of the issues raised; she invited the Member to participate in that process. She also pointed out that the effectiveness or value for money of the new Council structure could not be assessed until it had been in place for a while, and that senior management appointments were still being made during the review period.

Members endorsed the recommendations of the review group and, in particular, Recommendation 1 of the main report, which related to the need for rigorous groundwork before the adoption of projects and the implementation of fully documented project planning processes. A Member felt that the review report illustrated that scrutiny could have more impact by tackling on-going issues than by carrying out retrospective reviews.

Members thanked Frances Hawkins, Scrutiny Officer, for all her work on the review.

RESOLVED: That (1) the report of the Review Group be endorsed;

(2) the report of the Review Group be referred to Cabinet for consideration; and

(3) the Publications Advisory Panel be requested to consider the use of route maps and stories to assist in communicating the New Harrow Project message.

(Note: The decisions having been reached by general consensus, Councillor Osborn wished to be recorded as having been opposed to the decisions set out above).

218. **Extensions of the Meeting:**

At 9.59 pm, during discussion of the above item, and subsequently at 10.14 pm, following discussion of the item on Performance Management Training raised under any other business, the Chair drew the attention of the meeting to the time.

RESOLVED: That, under the provisions of Overview and Scrutiny Procedure Rule 6.7(ii)(b), the meeting be extended to 10.15 pm and 10.30 pm respectively.

219. **Scrutiny Review of Budget Processes - Interim Report:**

It not having been possible to provide a written report on the scrutiny review of budget processes for this meeting, the Lead Member for this review, Councillor Ingram, gave a verbal update.

The Review Group was approaching the end of the first phase of the review, having visited other authorities, circulated a staff questionnaire and held a seminar. It would be making long-term recommendations around the nature of consultation and engagement, but would not be proposing to change this year's process for the consideration of the budget by scrutiny. A presentation by a co-opted member of the Review Group on the findings of the staff questionnaire would take place prior to the Council meeting on 21 October 2004; Members were encouraged to attend. It was also reported that it was proposed to increase the number of co-opted members of the review group; a written report on this would be provided to the next meeting.

Members expressed their thanks to Lopa Sarkar, Scrutiny Officer, for all her work on the review.

RESOLVED: That the verbal update be noted.

220. **Urgent Action:**

RESOLVED: To note and, insofar as is necessary, to confirm the following Urgent Action taken with the approval of the Nominated Members since the last Ordinary meeting of the Committee:-

Scrutiny Review of the NHP – Community Schools Pilot

Approval was given to the report of the Scrutiny Review of the NHP – Community Schools Pilot, in order that it could be submitted to Cabinet on 29 July 2004.

221. **External Audit Review of Scrutiny:**

This item having been raised under any other business, the Director of Organisational Performance reported that the draft report of the external auditors' review of scrutiny was due to be received within the next couple of weeks.

Concern was expressed about the way in which the review had been undertaken. In particular, Members had suggested some areas that the external auditors may wish to look at, but it did not appear that they had done so. In addition, Members expressed concerns about whether the consultant who undertook the interviews had been properly briefed, and the time taken to produce the report.

It was agreed that the draft report would initially be forwarded to the Chair and Vice Chair of the Overview and Scrutiny Committee for comment. An informal meeting of Scrutiny Members would then be invited to comment on the draft, following which Executive Members and senior officers would be briefed on the report.

RESOLVED: That the process for consultation on the external auditors' draft report, as outlined above, be agreed.

222. **Performance Management Training:**

The Chair having raised this as an item of any other business, she expressed concern that the training session on 20 October 2004 had been cancelled because too few Members had signed up to attend. She encouraged Members to attend future training sessions on this issue.

RESOLVED: That the above be noted.

223. **Arms Length Management Organisation (ALMO):**

Further to this having been raised under any other business, the Chair highlighted the need for the Cabinet decision on the ALMO to be subject to scrutiny.

A Member advised that the Environment and Economy Scrutiny Sub-Committee had been receiving regular updates on the ALMO, and would be inviting the relevant Portfolio Holder to the next meeting to discuss the Cabinet's decision.

RESOLVED: That the above be noted.

224. **Business Transformation Partnership:**

The Committee received a confidential report of the Director of Business Services, which provided an update on the procurement process for the Business Transformation Partnership.

Members noted that it was proposed to set up a Member briefing on the approach to the management of the procurement. The Chair requested that the briefing be open to

all Members and encouraged Members to attend. She also congratulated officers on the communications aspects of the project, which she felt had been very successful.

RESOLVED: That (1) the approach to the project be endorsed; and

(2) Members receive a fuller briefing on the approach to the management of the procurement at a later date.

(Note: The meeting, having commenced at 7.35 pm, closed at 10.30 pm).

(Signed) COUNCILLOR JEAN LAMMIMAN
Chair