

# GOVERNANCE, AUDIT AND RISK MANAGEMENT COMMITTEE MINUTES

## 8 APRIL 2010

**Chairman:** \* Councillor John Cowan

**Councillors:**

* Keith Ferry (1)	* Anthony Seymour
* Thaya Idaikkadar	* Bill Stephenson
* Manji Kara (1)	* Jeremy Zeid
* Richard Romain	

\* Denotes Member present

(1) Denotes category of Reserve Members

### 146. Attendance by Reserve Members

**RESOLVED:** To note the attendance at this meeting of the following duly appointed Reserve Members:-

Ordinary Member

Councillor Dinesh Solanki  
Councillor Archie Foulds

Reserve Member

Councillor Manji Kara  
Councillor Keith Ferry

### 147. Declarations of Interest

**RESOLVED:** To note that there were no declarations of interests made by Members.

### 148. Minutes

**RESOLVED:** That the minutes of the meeting held on 21 January 2010, be taken as read and signed as a correct record.

#### **149. Public Questions, Petitions and Deputations**

**RESOLVED:** To note that no public questions were put, or petitions or deputations received at this meeting.

#### **150. References from Council and other Committees/Panels**

**(a) Key Decision - Treasury Management Strategy, Prudential Indicators and Minimum Revenue Provision (MRP) Policy and Strategy 2010/11**

A reference from the Cabinet meeting of 11 February 2010 was referred to the Panel. The reference referred to the Treasury Management Strategy, Prudential Indicators and Minimum Revenue Provision (MRP) Policy and Strategy 2010/11 report. The report highlighted the requirement to adopt the revised CIPFA Treasury Management Code of Practice 2009. An officer advised that proposals to alter the terms of reference of the Governance, Audit and Risk Management Committee (GARM) were outlined in a report appearing later in the agenda.

**RESOLVED:** That the reference be noted.

(see Minute 151)

**(b) Key Decision - Revenue Budget 2010/11 – 2012/13**

A reference from the Cabinet meeting of 11 February 2010 was received by the Committee. An officer referred Members to the risk assessment outlined in Appendix 9 of the Revenue Budget report of 2010/11 – 2012/13 attached to the reference. The officer confirmed that the column headings for the budget risk register would be amended. She added that officers would investigate whether there was an industry standard for the likelihood percentage range outlined in Appendix 9.

**RESOLVED:** That the reference be noted.

### **RECOMMENDED ITEMS**

#### **151. Governance Audit and Risk Management Committee Terms of Reference Review**

The Committee received a report that set out the proposed revised Terms of Reference for the Governance, Audit and Risk Management Committee (GARM).

An officer advised that the proposed terms of reference were recommended in the action plan completed following a self assessment workshop in 2009 with Members of the GARM Committee. She added that the CIPFA Code of

Practice for Treasury Management recommended that more scrutiny of this function be introduced. As a result, the terms of reference also proposed that the GARM Committee be provided with this responsibility. In response to a question, the officer added that changes within the Corporate Finance Directorate would manage the proposals outlined.

The Chairman advised that the proposed terms of reference would complete the existing terms of reference and give the GARM Committee greater responsibility.

In response to questions raised, the officer confirmed that the remit and responsibilities of the GARM Committee would be included in the Members Induction Programme following the local elections in May 2010.

**Resolved to RECOMMEND: (to Council)**

That the proposed new terms of reference for the GARM Committee be recommended to Council for approval and adoption.

**RESOLVED ITEMS**

**152. International Financial Reporting Standards (IFRS) Implementation Project**

The Committee received a report that set out the implications of implementing International Financial Reporting Standards (IFRS). The approval of the project plan for implementing the IFRS agreed at the GARM Committee meeting on 30 November 2009 was noted. An officer reported that the IFRS:

- would apply to the 2010/11 accounts. Officers had been working closely with the external auditors, Deloitte LLP to meet the milestones outlined in the project plan;
- would require significant adjustments to how private finance initiatives, leases and fixed assets were currently reported. In particular, the value placed on fixed assets would require each component to be identified and accounted for separately.

In response to questions raised, the officer confirmed that:

- implementing the IFRS would provide a more consistent approach to how accounts were reported nationally and internationally;
- to prepare for these amendments, the IFRS would be considered in the 2009/10 accounts. In order to fully reflect the prior year accounts on the same accounting basis, comparators would be used for the 2010/11 accounts.

**RESOLVED:** That the progress on the IFRS implementation project be noted.

### **153. Audit Plan for 2009/10 Accounts**

The Committee received a report that outlined the 2009/10 Account Opinion Audit Plan and Pension Fund Annual Report Audit Plan.

An officer and Auditors from Deloitte LLP who were in attendance at the meeting reported that:

- both plans outlined areas where key risk areas had been identified by Auditors;
- key risk areas in the 2009/10 Accounts Opinion Plan included insurance, pension liability, property valuations and bad debt provisions;
- auditors reviewed the processes followed by valuers in making a decision on the value of properties within the Council's portfolio;
- valuations made by Managers in relation to bad debt provisions were also reviewed by Auditors;
- following the introduction of IFRS 1 by the Statement of Recommended Practice (SORP), Auditors would review accounting arrangements that had been implemented to meet changes relating to Private Finance Initiatives (PFI);
- three risk areas had been identified in the 2009/10 Pension Scheme Annual Report. In addition to the pension scheme, other risk areas were considered to be private equities and derivative financial instruments;
- different employers participated in the pension scheme. Auditors considered that the calculation and payment of contributions from these particular members of the scheme was an area of risk;
- benefits payable to members of the pension in relation to retirement, ill health and death benefits 2008/09 were also a particularly complex risk. Auditors would need to identify how underlying investments were valued in order to understand how the year end balance of the accounts in this area;
- accounting for and the disclosure of derivative financial investments in the balance sheet were identified as being particularly complex.

In response to questions raised, Members were advised that:

- the Governance, Audit and Risk Management (GARM) Committee had been given specific delegated responsibility to consider the accounts. The Pension Fund Investment Panel considered the pension fund account;

- Auditors had noted the comments received regarding pension risk, insurance and purchase orders and would separate out all 8 areas of risk identified in the 2009/10 Accounts Opinion Plan;
- Auditors would provide regular updates on the progress made against all risk areas identified to Members on a quarterly basis;
- the pension fund account was sensitive to small changes in the assumptions of key variables, that include, future salaries, pensions and mortality;
- the Auditors evaluated recommendations made by the Actuary after they had reviewed mortality records;
- information from the accounts would influence IFRS 17 adjustments when accounts were being finalised;
- money owed in relation to Council Tax had been recorded as accounts receivable in the balance sheet;
- Auditors would consider Members comments in relation to admitted bodies and private equities. Derivative financial investments would be renamed as complex financial instruments;
- Pension Fund officers would ensure that the Pension Fund Annual report and the Auditors report on the Pension Fund accounts would be reported to the Pension Fund Investment Panel (PFIP) meetings in a timely manner.

**RESOLVED:** That the report be noted.

#### **154. Audit Fee Letter 2010/11**

An officer presented a report on the proposed work plan and fees for the external auditor for 2010/11. She added that the report and fee letter would be presented at the Cabinet meeting in May 2010. Members were asked to consider and comment on the proposals outlined.

The Auditor reported that there had been a reduction in the fees charged for over a two year period. He added that the fee scale outlined by the Audit Commission assumed that a full set of accounts would be presented.

In response to questions, the officer and Auditor advised that:

- Auditors were appointed by the Audit Commission to assess the accounts of all Local Authorities'. The Audit Commission used a scale rate to calculate and procure fees paid by Local authorities;
- a reduction in the fees charged by Auditors in the 2010/11 financial year may not be possible. Auditors' fees were calculated from the base of work that they anticipated would need to be completed on

behalf of the London Borough of Harrow. The commercial market influenced the pricing of fees to a certain extent. The current economic climate, posed a greater risk to how accounts were recorded and as a result would require greater scrutiny;

- Auditors would produce an outline of how the fees charged were calculated, such as hourly/daily rates for individual team members and present them to Members of the GARM Committee for consideration.

In light of the comments made by Members of the Committee, a Member moved to amend the officers' recommendation. The amended was carried and agreed.

**RESOLVED:** That

- (1) the auditor reconsider their fees structure so that excess charged over the fee scale is reduced and report back to the GARM Committee accordingly;
- (2) officers' relay the comments of the Committee to the Audit Commission.

## **155. Corporate Governance Update**

### Corporate Governance Review

An oral update on Corporate Governance was provided to the Committee. An officer reported that the process for the annual Corporate Governance review was a consolidation of all previous areas. She added that new areas had also been included, such as, initial observations from the recent Ethical Governance review, and a number of Use of Resources areas.

The officer advised that the evidence table to support the process was currently being updated by the Corporate Governance Working Group and would be used to draft the Annual Governance Statement.

### Management Assurance Exercise

The annual Management Assurance (MA) exercise was launched at the beginning of March. The Corporate Leadership Group had received a briefing on the importance of the exercise and how it fed into the annual governance review from the Director of Legal and Governance Services. An officer confirmed that 30% of assurance exercises for 2009/10 had been returned. She added that 83% of the agreed actions from the 2008/09 exercise had been implemented.

She confirmed that results of the 2009/10 MA exercise would be presented to the GARM Committee in June 2010.

**RESOLVED:** That the update be noted.

## **156. Use of Resources**

A report on the assessment process for the Use of Resources was presented to the Committee. The Committee were invited to review and comment on the self assessment and note the timetable for the Use of Resources in the 2010/11 financial year.

An officer stated that in order to establish interim scores, interviews with all relevant Key Lines of Enquiry (KLOE) leads would be held. She added that the Corporate Finance team had achieved a self assessment score of 3 out of 4 for financial planning and financial reporting.

The Use of Resources Self assessment 2009/10 report identified whether the organisation had the capacity to manage work and helped to focus on areas requiring improvement and those that were successful.

In light of comments received from Members, the officer confirmed that the Use of Resources would be included in the Induction for Members of the GARM Committee following the elections. She added that, a lead member for this area would also be identified.

Auditors would review all evidence gathered that supported self assessment results. Officers would present a progress report at the meeting of the GARM Committee in June 2010.

**RESOLVED:** That the report be noted.

## **157. Information Report - Corporate Anti-Fraud Team Activity**

The Committee received a report that briefed Members on the proposed planned work programme for the Corporate Anti-Fraud Team (CAFT) in 2010/11.

An officer reported that:

- the CAFT team was comprised of 7 officers whose main stream of work was benefit fraud at 85%. Other fraud related incidents in relation to employees and Council departments comprised the other 15% of work received;
- 98% of court cases brought by the CAFT had resulted in successful prosecutions. Police action in fraud cases was only required if an arrest or search of a property needed to take place;
- in 2010/11 the CAFT were intending to work in partnership with Housing Management to target tenancy fraud (subletting) in social housing and other areas relating to benefit fraud. The team would also continue to investigate instances where the disabled badge scheme had been misused;

- officers would provide a breakdown of team costs and confirm how the Housing Administration Grant supported these costs.

Following the presentation, Members had a brief discussion in relation to the work completed by the CAFT team and congratulated officers on the hard work.

**RESOLVED:** That the report be noted.

#### **158. Initial Draft Internal Audit Plan 2010/11**

A report that outlined the initial draft internal Audit plan for 2010/11 was presented to the Committee. The officer reported that the draft plan was largely risk based and contributions to the planning process from some Corporate Directors had helped to refine the plan. She added that views of the Committee were being sought and confirmed that meetings with the Chief Executive, remaining Corporate Directors and the external Auditor would take place before the plan was finalised.

**RESOLVED:** That the Committee had no comments on the plan and the process employed to develop the plan be noted.

#### **159. Any Other Urgent Business**

##### Vote of Thanks

On behalf of the Committee and residents, the Chairman thanked the Auditors for their work completed to date adding that they had been a great help to Members.

He also extended his appreciation to officers and Members of the Committee. A Member also noted the valuable contribution provided by the Chairman during his appointment.

**RESOLVED:** That the item be noted.

(Note: The meeting, having commenced at 7.40 pm, closed at 9.50 pm).

(Signed) COUNCILLOR JOHN COWAN  
Chairman