

GOVERNANCE, AUDIT AND RISK MANAGEMENT COMMITTEE MINUTES

26 JANUARY 2012

Chairman: * Councillor Sachin Shah

Councillors: * Sue Anderson * Chris Mote
* Mano Dharmarajah * Richard Romain
* Thaya Idaikkadar * Yogesh Teli

* Denotes Member present

136. Attendance by Reserve Members

RESOLVED: To note that there were no Reserve Members in attendance.

137. Declarations of Interest

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

138. Minutes

RESOLVED: That the minutes of the meeting held on 1 December 2011, be taken as read and signed as a correct record.

139. Public Questions, Petitions and Deputations

RESOLVED: To note that no public questions were received, questions put or deputations received under the provisions of Committee Procedure Rules 17, 15 and 16.

140. References from Council and other Committees/Panels

None received.

RESOLVED ITEMS

141. INFORMATION REPORT - Annual Audit Letter 2010/11

The Committee received an information report of the Interim Director Finance, setting out the Annual Audit Letter of the Council on the 2011 Audit, as issued by the Council's external auditor Deloitte LLP.

The Chairman invited representatives from Deloitte LLP to brief Members on the Annual Audit Letter, which set out the conclusions and the main messages following their audit of the Council for the financial year 2010/11.

Representatives from Deloitte LLP briefed Members on the key aspects of the Executive Summary, as follows:

- that they were pleased to have been able to issue unqualified opinions in relation to the Council's financial statements, value for money, pension scheme annual report and the Council's consolidated return for the purposes of the Whole of Government Accounts as at 30 September 2011;
- that due to an objection in relation to the 2008/09 accounts, which remained unresolved, it had not been possible to certify the closure of the audit for 2010/11 accounts nor for 2009/10 and 2008/09;
- that in relation to Grants certification, Grants HOU01 and PEN05, had now been certified and therefore all grants had been signed off without qualification.

Members asked questions about the Local Government Pension Scheme annual report and sought clarification on the objection, which had resulted in the Council's accounts not being certified. In response, a representative from Deloitte LLP and the Interim Director Finance stated that anyone could object to the Financial Statements of a local authority and explained that, in relation to Harrow Council, the matter related to an objection against the charging of a fee for the use of a credit card to pay parking and traffic penalty charges. The Interim Director explained the background to the case, the advice the government had given in relation to such charges and the anomaly of the law. She explained that whilst the amount involved was small, the accounts could not be certified until the matter had been resolved but, noted this was not an uncommon situation. With regard to the Pension Scheme annual report, Deloitte LLP had been satisfied that there were no significant issues arising as a result of which an unqualified opinion had been issued in advance of the 1 December 2011 deadline.

The representatives from Deloitte LLP responded to additional questions from Members. They confirmed that the financial statements presented by the Council under the International Financial Reporting Standards (IFRS) for the first time had been handled positively and they welcomed the production of a timetable by the Council in meeting various deadlines. The Finance

Directorate had undertaken a number of changes to the previous accounts to meet the requirements of the new Code of Practice.

Members agreed that the delay in publishing the accounts on the Council's website, governed by regulations, was unacceptable and should not happen again. They enquired how the implementation of the Bribery Act 2011 would be monitored and enforced by the Council's external auditors. In response, the Divisional Director Risk, Audit and Fraud stated that the requirements of the Act would be incorporated in the Council's policy on Fraud. A representative from Deloitte LLP stated that they would review the procedures in place and advised that this element would also be built into their own Plans. He did not consider that this area would require a significant amount of focus, provided the procedures put in place were robust. The practical impact of the Act was that the Council should review their anti-corruption policies to ensure regulatory risk was mitigated.

The Chairman thanked representatives from Deloitte LLP for their contributions.

RESOLVED: That the report be noted and the Interim Director Finance be requested to ensure that there were no delays in the publishing of accounts on the Council's website in the future.

142. INFORMATION REPORT - Risk, Audit and Fraud Division Activity Update

The Committee received an information report of the Assistant Chief Executive, which set out the current work streams of the Risk, Audit and Fraud Group of services. The report set out the progress made and future work planned in respect of the Group, as the Committee was responsible for monitoring this area. Confidential appendices were also considered by Members.

The Divisional Director highlighted the key achievements in relation to the insurance service procurement for property and liability cover which would be reported to Cabinet in February 2012, raising awareness in relation to the carrying of sensitive data, progress made in implementing a two year Health and Safety Plan which was on track, achievements of the Anti-Fraud Service, Risk Management Strategy which included the Council's new draft risk appetite statement, incorporating a monitoring tool which would be presented to Cabinet in April 2012.

A Member thanked the Divisional Director Risk, Audit and Fraud for resolving the public liability insurance issue in relation to the use of Community Premises at 27 Northolt Road, South Harrow, for the benefit of the community groups.

A couple of the Members were of the view that whilst the anti-fraud elements were informative and addressed fully in the report, the report did not identify the types of insurable risks faced by the Council in detail, which was also an important aspect of the Committee's monitoring role. Moreover, the levels of self insurance needed to be identified in the report, including land value and building costs which appeared to be moving in different directions. The limits

placed on the different types of insurance were also important. Additionally, the report proposed for Cabinet ought to initially be scrutinised by the Committee in future.

In response, the Interim Director Finance reminded Members that a comprehensive report had been submitted at the September 2011 meeting and was of the view that a balance had to be struck on the level of detail provided in reports.

The Chairman was of the view that the Committee's remit was wide and suggested that it might be beneficial to revisit the terms of reference at the future date. Moreover, informal posts of Lead Members had been set up to allow the Committee's role to be enhanced and not become cumbersome.

The Divisional Director undertook to provide a summary of the major classes of cover required, trends of claims and actuary review results which would be of interest to Members, with the September 2011 report being used as a basis whilst providing a refresh and an update. In response to a further question, he assured the Member that, following the implementation of a new team structure, the Health and Safety team appointment process to vacant posts was underway and should be completed by June 2012.

A Member sought officers' opinion on the types of risks faced by the Council and asked if a sixth risk, namely 'Counterparty or Stakeholder Risk', needed to be addressed. Moreover, the concept of risk was not widely understood and the Member suggested that the Committee would benefit from a presentation in this regard. The Chairman agreed with this approach and asked that the Interim Risk Manager be invited to the next meeting.

Members noted that Harrow had been successful in tackling tenancy fraud and had received good publicity in previous years. Members were informed that a great deal of evidence gathering was required to ensure success. They asked about the financial aspects and thresholds set against risks and were advised that these details would be submitted to the next meeting in the form of a matrix setting out the parameters under which the Council operated.

Another Member enquired how the 'Public Purse' would be protected once the Audit Commission had been disbanded. The Divisional Director Risk, Audit and Fraud stated that currently, the Audit Commission produced an annual document 'Protecting the Public Purse', which focused on fighting fraud against local government. Once the Audit Commission had been disbanded, it was likely that this area of work would devolve to local authorities who were lobbying for it, with Fraud Teams based locally. Networking arrangements could be put in place with the Department of Works and Pensions (DWP) issuing a national plan which local authorities would adhere to.

Members also discussed the confidential appendices, particularly the report relating to the major incident at Belmont Circle on 3 October 2011. The Emergency Planning and Business Continuity Service Manager informed Members that a number of lessons had been learnt from the incident, the majority of which had been implemented. Only one action remained outstanding. In response to question, the officer informed Members that in

terms of providing accommodation to a large number of people during an incident, mutual aid arrangements were in place. Moreover, there were regional aid agreements should the number of people to be accommodated went beyond a figure of 1,200 people. Schools too had arrangements in place, particularly in relation to the exam timetable. Trained police officers and those from the Fire Brigade were charged with dealing with the vulnerable. Members welcomed the post incident training they had received and agreed that an aide-memoire of the 'Do's and Don'ts' of handling a major incident ought to be issued to Members, as it would particularly assist those who had not been trained. The Chairman stated that mandatory training for Members ought to be introduced on an annual basis. Furthermore, it would be appropriate for Members to observe officers helping during an incident.

Members felt that the incident had been handled well and was considered to be a good news storey. It was important that residents were briefed on this matter through the Council's 'Harrow People' magazine. The Divisional Director undertook to take this request forward.

RESOLVED: That

- (1) the report be noted;
- (2) the next meeting of the Committee be themed on Risk with a presentation being made by the Interim Risk Manager, including an examination of the Council's risk register;
- (3) the Member Development Panel be advised of the view that the training provided to Members in dealing with major incidents be made mandatory.

143. Half Year 2011/12 Treasury Management Activity

Members considered a report of the Interim Director Finance, which set out the half year summary of the Treasury Management activity for 2011/12. Members were asked to consider the report and review the recommendations made by Cabinet to Council and prior to the consideration by Cabinet of the 2012/13 Strategy in February 2012.

The Treasury and Pension Fund Manager introduced the report and outlined the key aspects of the report, particularly the Creditworthiness and Counterparty policy and long term borrowing. He added that, at its December 2011 meeting, the Committee had agreed to recommend to Council a revised Counterparty Policy. Maximum maturities for the Council's bank would be limited to 36 months for the nationalised banks and three months for all other counterparties and would only be extended with the approval of Cabinet. Additionally, the government had changed the housing subsidy system, as a result of which the Council would have to pay £89 million to the government by 28 March 2012. This would entail the Council borrowing long term from the Public Works Loan Board (PWLB), as this method was seen as the most appropriate way forward.

A Member urged caution on the use of advisors and remarked that the financial markets were continuously changing and understanding them was a real challenge for all, including specialist advisors. He considered the views of the credit rating agencies to be an important aspect of any future financial planning. The same Member stated that he would seek further clarification separately on various aspects of the report from the Interim Director Finance, but confirmed that he could not support Credit Default Swaps (CDS).

In response, the Treasury and Pension Fund Manager advised that officers thought it prudent to look at all credit rating agencies, and that the Creditworthiness and Counterparty policy was 'owned' by officers and Members and not advisors. In this case, Sector, a leading and independent provider of capital financing, treasury advisory and strategic consulting services to UK public services organisations, had advised the Council. He assured the Member that officers discussed appropriate limits and examined relevant and available information before embarking on or proposing changes to existing policy. The officer also informed the Member that Council did not have proper custody arrangements in place or resources to hold Bonds.

In reply to a question from the same Member, the Interim Director Finance stated that the internal borrowing, as represented by the difference between the Capital Financing Requirement and external borrowing, had been accumulated over many years and impacted by changing Local Government accounting rules and would be difficult to rationalise.

RESOLVED: That

- (1) the half year Treasury Management activity for 2011/12 be noted;
- (2) in reviewing the recommendations made to Council by Cabinet, namely to approve the revised Counterparty Policy for investments and the increase in authorised limit of £378m and operational boundary of £366m for external debt, the Committee noted the comments made by individual Members in the preamble above.

144. Any Other Urgent Business

Lead Members 2011/12

Due to the need to make progress on this matter, Members agreed to consider this item as urgent business.

The Chairman stated that it was important that the following Lead Member positions were filled from within the Committee's membership and, where appointments had already been made, regular meetings between relevant officers and Members should commence.

Function	Member
Governance	[Position Vacant]
Risk Management	[Position Vacant]
Emergency Planning and Business Continuity	Councillor Richard Romain
Anti Fraud	Councillor Sue Anderson
Health and Safety	Councillor Yogesh Teli
Internal Audit	[Position Vacant]
Insurance	Councillor Mano Dharmarajah
Information Management	Councillor Yogesh Teli
Treasury Management	Councillor Richard Romain
Finance	Councillor Richard Romain

RESOLVED: That

- (1) the Divisional Director Risk, Audit and Fraud write to all Members and Reserve Members of the Committee with a view to enlisting them on the previously agreed Lead Member positions;
- (2) regular meetings between relevant officers and Lead Members commence with immediate effect.

145. Exclusion of Press and Public

RESOLVED: That, in accordance with Part I of Schedule 12A to the Local Government Act 1972, the press and public be excluded from the meeting for the following item for the reasons set out below:

<u>Agenda Item No</u>	<u>Title</u>	<u>Description of Exempt Information</u>
9.	INFORMATION REPORT - Risk, Audit and Fraud Division Activity Update – Appendices 1 and 5	Information under paragraphs 1 (relating to any individual) and 7 (action taken or to be taken in connection with the prevention, investigation and prosecution of crime).

146. INFORMATION REPORT - Risk, Audit and Fraud Division Activity Update

The Committee received confidential appendices to the report of the Assistant Chief Executive outlining the response to the Belmont Circle incident and details of fraud cases.

RESOLVED: That the appendices be noted.

(Note: The meeting, having commenced at 7.30 pm, closed at 9.08 pm).

(Signed) COUNCILLOR SACHIN SHAH
Chairman