

# GOVERNANCE, AUDIT AND RISK MANAGEMENT COMMITTEE MINUTES

## 26 JUNE 2012

**Chairman:** \* Councillor Bill Phillips

**Councillors:** \* Sue Anderson \* Richard Romain  
\* Amir Moshenson \* Victoria Silver  
† Chris Mote \* Ben Wealthy (1)

\* Denotes Member present  
(1) Denotes category of Reserve Member  
† Denotes apologies received

### 160. Attendance by Reserve Members

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

Ordinary Member

Reserve Member

Councillor Mano Dharmarajah

Councillor Ben Wealthy

### 161. Declarations of Interest

**RESOLVED:** To note that the following interests were declared:

Agenda Item 10 – Green and Amber Internal Audit Reports

Councillor Bill Phillips declared a personal interest in that he was a Trustee of Harrow Association of Voluntary Services (HAVS). He clarified that the report did not make specific reference to HAVS and that he would remain in the room whilst the matter was considered and voted upon.

Councillor Sue Anderson declared a prejudicial interest in relation to 'Grants to Voluntary Organisations – Follow Up', which had been referenced to in the report, in that she had been a Member of the Grants Advisory Panel. She left the room whilst the matter was considered and voted upon.

Agenda Items 12 – Annual Health and Safety Report 2011/12

Councillor Sue Anderson declared a personal interest in that her husband was Chair of Governors at a school. She would remain in the room whilst the matter was considered and voted upon.

Agenda Item 14 – 2012/13 Internal Audit Plan

During consideration of this item, Councillor Sue Anderson declared a personal interest in relation to Integration of Public Health, as she was a Health Trainer. She would leave the room if, during the discussion, her interest became prejudicial.

**162. Appointment of Vice-Chairman**

**RESOLVED:** That Councillor Victoria Silver be appointed Vice-Chairman of the Committee for the Municipal Year 2012/13.

**163. Minutes**

**RESOLVED:** That the minutes of the meeting held on 29 March 2012, be taken as read and signed as a correct record.

**164. Public Questions, Public Questions and Deputations**

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

**165. References from Council and other Committees/Panels**

None received.

**RESOLVED ITEMS**

**166. Terms of Reference of the Governance, Audit and Risk Management Committee**

The Committee received its Terms of Reference, which were for noting.

The Chairman stated that he had had discussions on the Terms of Reference with the Nominated Member and they had felt that aspects, including terminology used, needed to be revised. For example, words such as "To Review / Monitor / Consider / Scrutinise" needed clarification in the context of the Committee's Terms of Reference. Additionally, section (g) had been inherited and was the only section that had sub-paragraphs included. It was appropriate to either delete these or to include sub-paragraphs within other sections.

Another Member agreed and referred to the definitions set out in various legislation which may not apply in this instance. He was of the view that it would be helpful to list the aims of the Committee and a general definition would be appropriate for inclusion within the Terms of Reference.

In response, the Corporate Director Resources stated that the Terms of Reference were for noting only but that any proposed amendments should be the subject of a further report so that an informed decision could be made whilst assessing the impact of any changes proposed. The Corporate Director invited Members to submit amendments for a response by way of a further report to the Committee. Any changes approved by the Committee would subsequently have to be agreed by full Council before they could take effect.

The Chairman stated that he would lead on this matter and invited changes to the Terms of Reference to be submitted to him in the first instance.

**RESOLVED:** That the Corporate Director Resources submit a further report to the Committee, assessing the implications of the proposed changes to the Committee's Terms of Reference submitted by Members.

#### **167. INFORMATION REPORT - Green and Amber Internal Audit Reports**

The Committee received an information report of the Assistant Chief Executive, setting out the follow up actions taken in relation to reviews undertaken in respect of Cannon Lane Junior School, Customer Services Standards, Grants to Voluntary Organisations, CCTV and Vaughan Primary School.

The Chairman drew attention to the follow up action in relation to the Grants to Voluntary Organisations and noted that 12 of the 32 recommendations had not been fully implemented and he enquired about the boundaries that the Committee could operate within to ensure that all the recommendations were implemented. He added that his discussions with the Voluntary Sector organisations had shown that the Service Level Agreements (SLAs) had become onerous. Moreover, conditions imposed could be considered as being unreasonable.

Another Member stated that it would have been helpful if the Divisional Director Community and Culture had been invited to the meeting, and he was of the view that the report did not provide any reassurances. The grants appeal process raised issues of concern and he questioned whether or not the SLAs were deliverable. The Chairman stated that he would consider extending an invitation to the Divisional Director Community and Culture to attend the next meeting.

A Member stated that full Green and Amber Internal Audit reports should be submitted to the Committee with appropriate officer attendance.

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

## 168. INFORMATION REPORT - Internal Audit Year-End Report 2011/12

The Committee received a report of the Assistant Chief Executive, which set out progress against the 2011/12 Internal Audit Plan and key issues arising from the work undertaken. Members also considered a confidential appendix in the context of the report.

An officer outlined a performance target which had been met, including those that remained outstanding. She referred to the new Corporate audit indicators and outlined their impact, firstly it impacts on the rate of improvement to the control environment and secondly the audit team spend more time than necessary chasing managers impacting on our ability to achieve the audit plan. Whilst internal audit considered the overall control environment as adequate, a key issue was inconsistency and confirmed that internal control was the responsibility of individual managers.

In response to a question, the officer clarified that the expected high number of audits to be given red or red/amber assurance had fallen to 30% in 2011/12 and this was a positive improvement when compared to 42% in 2010/11 and 50% in 2009/10.

In response to another question, the Corporate Director Resources stated that support from the Leader of the Council and the Portfolio Holder for Finance in ensuring improvement of financial controls was going to be paramount. Additionally, Members of the Committee had a role to play in the control the environment and where recommendations were not responded to. In her capacity as Section 151 Officer, the Corporate Director's role was crucial, as she had powers of direction in order to ensure compliance. Additionally, relevant Members were briefed of any non-compliance by officers. However, a balance needed to be struck in relation to non-compliance and this would depend on the scale of the issue.

Individual Members commented as follows:

- an explanation was required where targets were missed, including reasons;
- in relation to Treasury Management, the significant weakness identified was of concern and it was important for the Committee to be aware of the skills required and whether these were available within the Council;
- a review of the governance arrangements across the Council was welcomed;
- whether Internal Audit was adequately resourced;
- how the Committee could assist in ensuring compliance thereby avoiding continuous chasing. Perhaps the use of a Star Chamber leverage was essential, as a delay of four months on compliance was unacceptable;

- the application of Contract Procedure Rules (CPRs), the numbers of CPRs and those that had resulted in actual contracts;
- detailed explanations were required in future reports about the numbers of respondents involved, delays in responses, including explanation for the delays;
- assurances were required that Members of the Committee would be briefed on Capital Investigation. It was essential that the Committee or individual Members of the Committee were briefed, as the Committee's role was an executive one;
- CIPFA guidance appeared to be 'soft' in nature, staffing levels in internal audit were inadequate and compliance with recommendations by Management was poor and unacceptable;
- whether there were issues with the IT software used.

In response, the Corporate Director Resources and an officer stated that:

- staffing levels were appropriate and their skills adequate, including those relating to the monitoring of Treasury Management;
- that guidance from CIPFA for reviews, such as that for Treasury Management, were available and the skill was in assessing internal controls in place to mitigate risk;
- details of the CPRs would be provided, as requested. CPRs were cross cutting and generally involved a large number of respondents. Methodologies were in place in dealing with Risk Management;
- delays in responses were prioritised according to associated risk levels and escalated, where appropriate, to a Manager. Often there were plausible reasons for late responses. If there was a major weakness in a control which was financially risky, the matter would be escalated to Managers and Directors. Additionally, red recommendations were also escalated but, generally, a balance had to be struck on how matters were escalated;
- Members would be briefed on red reports and issues of material overspend in order of hierarchy and there was also the issue of what was to be done with the information when the issue was raised;
- risk registers of Directorates were reviewed but there were no trends in emerging risks. Additionally, there appeared to be no emerging risks in relation to the localisation of Council Tax support and that this was as a result of internal audit's involvement from the outset in the process;
- work was underway on payment of invoices where in some instances these were received before orders had been raised. Whilst there were

no quick solutions, the culture within the organisation, including systems, were being examined.

**RESOLVED:** That the report, including the comments, be noted.

**169. INFORMATION REPORT- Annual Health and Safety Report 2011/12**

The Divisional Director Risk, Audit and Fraud introduced the report, which summarised the Council's Health and Safety performance from April 2011 - March 2012, whilst providing an update of activities and information on outcome measures such as training, audits and accidents.

The Divisional Director referred to the Peer Review conducted by the Health and Safety Manager from Coventry City Council and added that the report would build on the Peer Review. A two year improvement plan had been developed to enable the Council to produce a robust health and safety management system. Last year had been another demanding year for the Health & Safety Service across the organisation with the Service implementing the requirements of year one of the improvement plan.

The overall accident trend from 2010/11 - 2011/12, excluding schools, showed a steady decrease in accidents across the Council, with accidents that were reportable to the HSE remaining the same in both years. The types of accidents occurring and the occupations affected were similar for both years, there were no new trends. Since the accident database was relatively new, the two years of statistics gave limited scope to analyse trends but this would improve as the database expanded. Schools had the highest number of accidents but the trend was downwards.

In response to questions from Members, an officer undertook to provide figures for physical assaults, including details of the analysis conducted. He added that physical assault figures had been broken down further to avoid distortion. Officers would be assessing and measuring the dangers of various occupations and how risky these were. In relation to Health & Safety, officers were looking to provide training across the Council and details would be provided in future reports. Moreover, Health & Safety training was mandatory. A training matrix was also available for use by Managers and that new starters were being captured at the start of their employment with the Council. The role of a Fire Officer was captured in the roles of other staff as it had been difficult to recruit to this specific role. In terms of the Civic Centre, a tannoy system had been installed and the new evacuation procedures needed to be tested.

The Divisional Director outlined the value of the Directorate Health and Safety Groups. A Member stated that these should not be kept going purely to meet indicators, unless they provided value for money. With regard to the staffing levels, a compliment of five posts existed, two of which had been filled.

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

## **170. INFORMATION REPORT - Risk, Audit & Fraud Division Activity Update**

Members received a report of the Assistant Chief Executive, which outlined the current work streams of the Risk, Audit & Fraud Group of services, including the progress made across the Division.

The Divisional Director Risk, Audit & Fraud reported that the Emergency Planning team was at full complement and had planned and were prepared for the Olympics. In relation to the main activity, a tender exercise to secure the council's liability and property insurance which was due to expire on 31 March 2012, a saving of £70k per annum was guaranteed for at least the next two years, with no reduction in the levels or quality of cover. In response to a question from the Chairman, the Divisional Director stated that the LEAN Review of Fraud Investigation Acceptance Gateway had struggled due to issues with the system which had not produced helpful reports. In regard to benefit fraud, there had been a time lag between the cases referred and those that were subsequently closed/dealt with. In future, the number of cases investigated, including their details, would be included in reports.

The Divisional Director referred to the question on assurance mapping, which had commenced during 2011. He explained that this was a comprehensive exercise to identify and map out sources of assurance that the organisation received through various means, against the Council's strategic risks. The work was being undertaken to inform a review of assurance / governance to ensure an appropriate framework was in place which is both appropriate for the needs of the Council and sufficiently streamlined to avoid duplication.

A Member asked if assurance mapping also applied to the Council's Partners. In response, the Assistant Chief Executive stated that these were emerging risks and agreed that there would be value in doing an exercise at a basic level. A rudimentary Partnership Risk Register would be of significant value.

**RESOLVED:** That

- (1) the progress across the Division be noted;
- (2) proposals for a Partnership Risk Register be reported to a future meeting of the Committee.

## **171. 2012/13 Internal Audit Plan**

The Committee received a report of the Assistant Chief Executive setting out the 2012/13 Internal Audit Plan, Delivery Plan and Strategy.

An officer reported that the Internal Audit Plan was a moving document and included the following:

- Reliance/Assurance Reviews – items were reviewed at regular intervals, three yearly and tests were carried out to ensure that systems were operating as required. Reviews were also conducted if significant changes were observed. Management Assurance was carried out by asking Divisional Directors to provide assurances on key

matters which culminated into a Corporate document signed off by the Chief Executive. Internal Audit participated in the Corporate Governance Group which was chaired by Legal and Governance. A Corporate Strategic Risk Group provided a link between internal audit and risk management.

- Professional Advice – which had identified areas that would benefit from advice, such as the Business Support Hubs, Modernising Terms and Conditions, Shop4Support and Access Harrow, the latter of which sought advice on risk and internal control as processes were reviewed using LEAN principles.
- Corporate Risk Based Reviews – helped to ensure processes were consistent, fit for purpose, robust and transparent and were being complied with.

A Member asked about the different types of Financial Regulations and why it would take some 10 days to review these. He asked how debt was recovered, profit obtained, if any, the extent of internal audit involvement in property maintenance, agency staff levels, overall staffing levels and the terms of reference of Internal Audit.

An officer responded as follows:

- with regard to the Council's Financial regulations, a bench-marking exercise had been undertaken with other local authorities and CIPFA guidance examined. Prior to undertaking a detailed review, a review of time was considered but that the 10 days allocated may alter. A Member commented that he remained to be convinced about the time allocated;
- debt recovery was being examined with a view to commercialising the operation. It was essential that the Council followed a pattern of invoicing, collecting, chasing the debt which were all strands of a commercial project. Moreover, the operations were broken down amongst different individuals and all elements were being examined with internal audit having an overview;
- property maintenance processes were examined by internal audit and it was acknowledged that the report would benefit from a better description under this heading;
- the terms of reference for Internal Audit required updating and would be submitted to the Committee;
- the number of audit days available for 2012/13 was based on a headcount of 5 staff and would be revisited when the headcount had gone up to 7, with details being submitted to the Committee. A mid-year review would also be conducted with Managers.



**RESOLVED:** That

- (1) the 2012/13 Internal Audit Plan be approved to fulfil the CIPFA Code of Practice for Internal Audit requirement to approve but not direct the Internal Audit Plan;
- (2) the Internal Audit Delivery Plan be noted.

#### **172. Revenue and Capital Outturn 2011/12**

The Corporate Director Resources introduced the report, which set out the Council's Revenue and Capital Outturn position for 2011/12. She explained that the report had been approved by Cabinet and was referred to the Committee for information only.

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

#### **173. Treasury Management Outturn 2011/12**

Members received a report of the Corporate Director Resources setting out the summary of Treasury Management activities for 2011/12 which was noted by June 2012 Cabinet meeting and referred to the Committee to scrutinise.

The Corporate Director Resources and an officer explained the background to the Counterparty Policy, which had been approved by Council in February 2012. The Council was cautious in its investments but not overly so and the Policy ensured a reasonable return on investments made. They added that a small surplus was expected although, as the Council was prudent in its budgeting, a nil variance had been forecasted.

An officer added that the Counterparty Policy restricted maximum maturities to 3 months for most banks and up to 36 months for the part nationalised banks. Since the new policy had been adopted, no new investment had exceeded 12 months maturity. The change to the housing subsidy system by the government had resulted in the Council having to pay £88 million towards the HRA. The officer explained the options available to lenders and borrowers after 5 years, the setting of interest rates and associated risks. He added that appendix 1 set out the affordability element of Prudential Indicators and whether the actions taken were prudent and sustainable. Table 3 of the appendix showed that net debt had increased. The Council was intending to reduce the cash held and had no plans to borrow. Table 6 of the appendix set out the ratio of net to gross borrowing, the difference being cash in hand. Officers were looking at improving the ratios to make them more meaningful.

The Committee was informed that apart from the involvement of Cabinet, officers met with Sector, a leading and independent provider of capital financing, treasury advisory and strategic consulting services to UK public service organisations, on a quarterly basis and benchmarking was carried out of the return and risk on cash portfolio. Members were of the view that training in this area would be helpful in understanding the issues involved.

A Member suggested that a risk analysis ought to be provided in relation to LOBO modeling and it was noted that table 8 of the appendix which set out the maturity profile of debt was based on the LOBO loan interest reset dates being taken as the maturity date. The same Member suggested that a method of presentation that could be clearly understood was required and he questioned whether the Council could afford the debt.

The Corporate Director Resources advised that a full review of the Counterparty Policy had been undertaken in the last quarter of 2011 seeking security of investments yet allowing opportunities to generate income. She assured Members that imaginative work had been carried out with Sector and the Council's budget position had been improved as a result of the Counterparty Policy. In response to a question, Members were informed that the Council did not have any current investments with Santander.

**RESOLVED:** That the outturn position for Treasury Management activities for 2011/12 be noted.

#### **174. Committee Lead Member Update**

The Divisional Director Risk, Audit & Fraud introduced the report, which set out the current position regarding the appointment of Lead Members. A Member, who was also a Lead Member, explained the role of Lead Members and the requirement to report back annually to the Committee on key issues affecting their particular area.

**RESOLVED:** That the Divisional Director Risk, Audit & Fraud seek volunteer Lead Members by contacting all Members of the Committee.

#### **175. Any Other Urgent Business**

##### Action List

The Chairman recommended that the 'Action List' should be retained in order to keep a track of the actions taken and imposed.

##### Training

The Chairman referred to a suggestion from the nominated Member and agreed that training sessions should be held an hour prior to the Committee meetings with the following subjects being earmarked for the September Committee meetings:

- 4 September 2012 – Treasury Management
- 24 September 2012 – Council Accounts.

Members welcomed the proposal and it was noted that the clerk would inform Members of the training sessions.

##### Meeting with External Auditors

In response to a question, the Corporate Director Resources suggested that the meeting with the External Auditors be held in September. She would advise Members of the date.

## 176. 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 reason set out below:

<u>Agenda Item No</u>	<u>Title</u>	<u>Description of Exempt Information</u>
20.	INFORMATION REPORT - Internal Audit Year-End Report 2011/12 (Appendix B)	Paragraphs 1 and 7 - information relating to individuals and information relating to actions taken in connection with the prevention, investigation and prosecution of crime.

## 177. INFORMATION REPORT - Internal Audit Year-End Report 2011/12

The Committee received a confidential appendix, which set out suspected financial irregularities in the context of the progress against the 2011/12 Internal Audit Plan and key issues arising from the work undertaken.

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

(Note: The meeting, having commenced at 7.31 pm, closed at 9.55 pm).

(Signed) COUNCILLOR BILL PHILLIPS  
Chairman