

# GOVERNANCE, AUDIT AND RISK MANAGEMENT COMMITTEE MINUTES

## 24 SEPTEMBER 2012

**Chairman:** \* Councillor Bill Phillips

**Councillors:** \* Sue Anderson \* Chris Mote  
\* Mano Dharmarajah \* Richard Romain  
\* Amir Moshenson \* Ben Wealthy (1)

**In attendance:** Thaya Idaikkadar Minute 196, 198  
**(Councillors)** Sachin Shah Minute 196, 197, 198, 199

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

### 191. Attendance by Reserve Members

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

Ordinary Member

Reserve Member

Councillor Victoria Silver

Councillor Ben Wealthy

### 192. Declarations of Interest

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

### **193. Minutes**

In accordance with the Local Government (Access to Information) Act 1985, the following agenda item was admitted late to the agenda so that the minutes could be approved at the earliest opportunity.

**RESOLVED:** That the minutes of the meeting held on 4 September 2012 be taken as read and signed as a correct record.

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

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

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

None were received.

## **RESOLVED ITEMS**

### **196. Information Report - Whistle-Blowing**

The Committee received a report which set out information on the Council's Whistleblowing Policy (The Policy). The Director of Legal and Governance Services introduced the report and explained that this was a regular annual report. Within the past year there had been indications that the Government was proposing to introduce new protection for whistleblowing in the public sector but had recently announced that this proposal was now on hold.

The Director of Legal and Governance Services also reported that:

- the Policy had been in existence for a number of years. It protected employees from harassment or victimisation if they raised a complaint. The Policy was also published widely on the Council's website;
- in the last twelve months, the Council had received only one complaint under the Policy. The issue raised was investigated and the claims made were not substantiated.

During the discussion on this item, Members of the Committee raised a number of issues, which officers responded to as follows:

- it was not believed that the sole complaint made under the Policy indicated that there was an issue relating to non-reporting. However it was recognised that there was an ongoing issue for the Council in increasing confidence amongst staff generally to feel able to raise issues with their manager. This issue had been indicated by recent staff surveys;
- the Policy ensured that comprehensive responses were provided to all complainants to address all of their concerns;

- if an employee raised an issue, every effort was made in order to ensure confidentiality. However, when conducting an investigation further information may be required from other employees;
- complaints under the Policy were usually at the formal end of the scale in relation to dealing with issues raised by employees. The majority of complaints made by employees were dealt with under the Conduct Procedures;
- it was important that senior officers within the Council set the right tone. This involved addressing broader cultural issues including how ideas were welcomed and reacting positively to different issues;
- complaints made anonymously under the Policy were harder to investigate and more difficult to substantiate. Whilst there was an ability to make complaints anonymously, if the frequency of these increased, it would become onerous for staff in terms of the time spent on investigations. It was better that the Council to create a climate of trust and confidence amongst its staff;
- all new members of staff were advised of the Policy as part of their Corporate Induction.

During the discussion on this item, various Members of the Committee made a number of comments as follows:

- it was important that all staff felt comfortable in their ability to make a complaint under the Policy. This was particularly important for junior members of staff who could feel more worried about repercussions and a breach of confidentiality. In addition to this, the Policy was not user friendly. For these reasons there had to be a greater emphasis on allowing employees to raise complaints anonymously;
- Members had an important role to play, in representing employees who wished to remain anonymous, by dealing with their issues;
- for any anonymous complaints, a balance had to be sought between conducting the investigation effectively and the likely increased costs that may be associated with it;
- Trade Unions were a useful source of advice and support if anyone wished to make a complaint under the Whistleblowing Policy.

At the conclusion of the discussion, Members of the felt that it was important in light of the debate, that the Committee investigated the issues raised further. An officer proposed that a broader report be presented to a future meeting of the Committee on issues relating to a healthier culture and how practices amongst staff could contribute to governance principles including the Whistleblowing Policy.

**RESOLVED:** That

- (1) the report be noted;
- (2) a report be presented to a future meeting of the Committee on issues relating to a healthier culture and practices amongst staff contributing to governance principles including the Whistleblowing Policy.

#### **197. Management Assurance Report 2011/12**

This report set out the results of the 2011/2012 Management Assurance Exercise. In response to questions raised by Members of the Committee, officers reported the following:

- the Internal Audit team was currently small. However work is currently being undertaken to determine how best to fill vacant posts to meet the needs of the Council;
- if purchase order numbers were raised after an invoice had been received, there was currently little disciplinary action taken. It was important to recognise that employees worked hard and sometimes systems and processes led to errors. Training was being conducted and procedures were being tightened up. In addition to this, suppliers were also being advised of the consequences if they issued invoices without the relevant purchase order number.

**RESOLVED:** That the results of the 2011/12 Management Assurance Exercise were suitable for use as supporting evidence for the Annual Governance Statement.

#### **198. Statement of Accounts 2011/12**

In accordance with the Local Governance (Access to Information) Act 1985, this agenda item was admitted late to the agenda as at the time of publication of the agenda, the Statement of Accounts were being amended for late, technical audit adjustments.

The Committee welcomed representatives from the Council's auditors, Deloitte LLP (Deloitte), who were in attendance for this item.

At the outset, a Member of the Committee stated that in previous years it had been customary for the auditors to meet privately with the Committee prior to the meeting where the Council's final accounts were approved. Whilst there were no issues to be raised on this occasion, it was hoped that this practice would continue in the future. A representative from Deloitte responded that they would be happy to continue with this practice in the future and would be happy to meet with Members of the Committee prior to the next meeting, if requested.

The Committee then proceeded to consider the report which presented the audited Statement of Accounts for 2011/12. The Corporate Director of Resources reported that there were five recommendations for the Committee

to consider as contained within the report. The report would be presented to the Committee in two sections. The first section would focus on the audited Statement of Accounts. The second section would focus on the audited Pension Fund Account.

A representative from Deloitte introduced the audited Statement of Accounts and reported the following points:

- the interim findings had been highlighted to the last meeting of the Committee. All issues had been resolved between Deloitte and the Finance Team within the Council. It was expected that the Statement of Accounts would be finalised by the end of the week;
- the accounts would not be certified at this stage due to an outstanding objection, raised by a resident a number of years ago in relation to credit card charges on penalty enforcement notices. It was expected that this issue would be resolved within a couple of months;
- key risk areas had been identified as part of the audit planning process. One of these risks related to revaluation of properties. This was judgemental and work was focused on the assumptions made. Overall they were satisfied with the approach and assumptions made by the Council;
- another key risk area related to the valuation of the pension liability. They found that the assumptions used by the authority in this valuation fell within a reasonable range;
- recognition of grant income was also a key risk. This included judgements made on different recognition criteria attached to individual grants. Deloitte had made a recommendation to the Council to hold a central register;
- one other key risk was capital miscoding. The work carried out by them had demonstrated that the new control environment adopted by the Council operated well. They had worked closely with the Internal Audit team on this aspect;
- large provisions had also been included as a key risk area. Their review of the assumptions made by the Council in calculating these provisions highlighted no material issues;
- one further key risk area that had been highlighted related to the management override of controls. This was considered to be significant and required the performance of extended audit procedures in some areas. This risk was associated with three main areas. Firstly ledger codes for Academy schools, which were no longer Council assets, had been closed and removed from the chart of accounts without proper approval. Secondly audit errors and inconsistencies in reporting had been identified in relation to the West London Waste Authority (WLWA). In Deloitte's view this highlighted the need for a

separate bank account for funds held in relation to the WLWA. The final area related to issues on the capacity within the Finance Team.

During the discussion on this item, various Members of the Committee raised a number of queries which representatives from Deloitte and officers responded to as follows:

- there were various reasons why the management override of controls occurred. This related to lack of training, a lack of communication and from incorrect assumptions about the level of responsibility and control officers had. More work was required to train officers in accountancy rules. In addition to this the SAP team had not realised that by closing codes, the Finance Team would no longer be able to see relevant information. More training on accountancy rules was also therefore required by the SAP team;
- there were issues with the way SAP was set up at the Council which caused difficulties in producing balance sheets or service specific reporting. Officers were therefore required to run a trial balance and any adjustments had to be done manually;
- more work was required with SAP to ensure that the software met the needs of the Council. SAP had been implemented better in other Councils and officers would be doing some research on potential SAP improvements to establish a best practice to be adopted in the Council;
- there were issues in relation to opening a separate bank account for the funds relating to the WLWA. SAP had been implemented to only operate for the Council as a single entity. As a result WLWA transactions had to be performed through the Council's single entity accounting system. To rectify this would become complex and potentially involve a significant amount of expenditure. The Council's arguments presented to the auditors would in the future be presented in a clearer manner;
- there was a joined up working approach between Internal Audit and the Finance Team in addressing issues related to the management override of controls;
- the risk area of large provisions related to a previous insurance provider for the Council. This company had been wound up which had meant that there was a period of time for which there was no cover provided. The Council had consulted an independent actuary and made provision for £1.1 million to cover any potential claims made against the Council in relation to the uninsured period. An additional £300,000 would be funded from reserves. Deloitte believed that the figure should have been provided for outright;
- there was a requirement for the Council to complete Whole of Government Accounts return. In response to a Member asking if the Council really had to perform this, a representative from Deloitte stated

that it was unlikely that any audit would be cleared if this was incomplete and it would have to be an issue raised with the Audit Commission. Currently all authorities in London completed this;

- the likelihood and impact of any risks highlighted in relation to the Value for Money Conclusion would be contained in the Council's risk register. The Council had demonstrated to the auditors that they had a track record of effective monitoring of its financial position especially in the current challenging national economic climate;
- there were now a significant number of control mechanisms in place to counter against capital mis-coding controls. These mechanisms had been independently reviewed by the Internal Audit team. The Capital Forum played a key role in maintaining these mechanisms. It did this by regularly monitoring the status of projects, examining business cases and providing express permission before any funding was released;
- the Capital Forum was held accountable through a number of routes. Its role primarily related to a delegation to the Section 151 Officer. The outcomes from the Capital Forum were regularly reported to the Leader of the Council and Portfolio Holder for Finance. Additionally budget monitoring reports were regularly submitted to the Corporate Strategy Board, the Performance and Finance Scrutiny Sub-Committee and Cabinet.

During the discussion on this section of the report, various Members of the Committee made a number of comments:

- the recommendation to authorise the Section 151 Officer to make technical audit adjustments to the Statement of Accounts should include a caveat that any changes were reported back to the Committee at a future meeting;
- the sign off of the accounts by the auditors was welcomed and its significance should not be underestimated;
- the auditor's recommendation that all grants be centrally maintained and for the Council to monitor spend by each directorate to identify risks of claw back was onerous on the Section 151 Officer. There was doubt expressed that this could be achieved in the timescales indicated;
- there was concern that any testing on the issues relating to capital mis-coding controls had not been performed on comparable projects to those projects where problems had been encountered. There was a significant reduction in the amount spent on big scale projects which meant comparable testing could not take place.

The Committee then considered the second section of the report relating to the Council's Pension Fund Account. A representative from Deloitte introduced this section of the report and reported the following:

- Deloitte were pleased with the outcome of the audit. This was now complete subject to a technical review. There were no issues which gave cause for concern;
- previous issues relating to tolerance ranges and the creation of a separate bank account for the Pension Fund had been satisfied;
- one control point had been raised in relation to the Pension Fund audit relating to the authorisation of journals. The Council had acknowledged this issue and agreed to address it.

In response to a query raised by a Member of the Committee, officers and representatives from Deloitte confirmed that it was not the usual practice for the auditors to meet with the Council's actuary advisor, although there had been email correspondence between them. If there were any issues arising with the actuary, only then could a need to meet arise.

Members of the Committee made a number of comments as follows:

- it was important to highlight that the Council made little use of derivatives. The current way this was worded in the report seemed to indicate that the Council made significant derivative investment, and this needed to be corrected;
- relevant dates and years were required to be inserted on various parts of the report at page 217;
- the letter sent to the auditors at page 224 of the report was requested to be amended at paragraph 8 to reflect that Members had been given the opportunity to comment on and raise issues on the stewardship of the Pension Fund, rather than stating that enquiries had been made of Members.

At the conclusion of the report, the Committee thanked the representatives from Deloitte for their report and their attendance. A Member of the Committee commented that the Council should take comfort that the accounts had been signed off by the auditors with no major issues. This position also reflected the good relationship between the Council and Deloitte. He also proposed that all officers within the Finance Team be thanked for their work in ensuring that the accounts had been signed off successfully. This note of the congratulations should be on behalf of the Committee. This proposal was unanimously agreed.

**RESOLVED:** That

- (1) the report of the External Auditor for Harrow and the Pension Fund be noted;

- (2) the accounts for 2011/12 be approved;
- (3) the Section 151 Officer be authorised to make technical audit adjustments to the Statement of Accounts, with any changes reported to a future meeting of the Committee;
- (4) the Pension Fund Annual Report for 2011/12 be noted;
- (5) the Chairman be authorised on behalf of the Committee to agree the Annual Audit Letter for publication and submission once all audit matters have been completed.

#### **199. Further Announcements**

The Chairman confirmed a briefing had been conducted for the Committee earlier that day on the investment of the Council's cash balances. Option 3 of the proposals had been expressed as the preferred option by Members present. This would be used as guidance to develop proposals before a decision was required by the Full Council.

(Note: The meeting, having commenced at 7.44 pm, closed at 9.49 pm).

(Signed) COUNCILLOR BILL PHILLIPS  
Chairman