

# **GOVERNANCE, AUDIT, RISK MANAGEMENT AND STANDARDS COMMITTEE MINUTES**

## **31 JANUARY 2017**

**Chair:** \* Councillor Antonio Weiss

**Councillors:** \* Ghazanfar Ali \* Barry Macleod-Cullinane  
\* Mrs Chika Amadi \* Amir Moshenson  
Margaret Davine \* Bharat Thakker

\* Denotes Member present

### **161. Attendance by Reserve Members**

It was noted that no apologies had been received and no Reserve Members had been appointed.

### **162. Declarations of Interest**

In the context of any discussions on the Council's Regeneration programme, Councillor Amadi reported an interest in that she worked in Wealdstone town centre.

### **163. Minutes**

**RESOLVED:** That the minutes of the meeting held on 6 December 2016 be taken as read and signed as a correct record, subject to amendment of the first sentence of the fourth paragraph of Minute 159 (Corporate Risk Register, Quarter 2, 2016-17) to read as follows: "A Member registered his disappointment at the response to Brexit risks as outlined in the report, which he considered failed to address the question put to the officers."

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

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

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

**RESOLVED:** To note that no references had been received.

#### **166. External Audit Plan 2016-17**

The Committee received a report on the External Audit Plan for 2016-17 which was introduced by Emma Larcombe of KPMG. The report summarised how the external audit of the Council's accounts and Pension Fund accounts for 2016/17 would be conducted and the key aspects of the audit plan, including levels of estimated overall "materiality", the impact on the Council's Statement of Accounts resulting from the developments and changes from the 2016/17 Code of Practice on Local Authority Accounting, the scope of, and approach to, audit work, and the identification of significant and other audit risks. Ms Larcombe outlined the five more significant risks, two of which were related to the Pension Fund; beyond these, there were also other areas of audit focus identified in the plan.

The Chair asked about the timescales for the work and Ms Larcombe, referring to Appendix 1 of KPMG's report, explained that the interim audit of control arrangements in March would be followed by the final accounts audit in June/July and the formal audit report in September.

A Member sought information on the auditors' approach to examining the property valuations, in particular whether all properties were included and whether the actual values were tested. Ms Larcombe explained that the auditors' property work covered a range of issues, including valuations, disposals, instructions to valuers and depreciation. She confirmed that KPMG used their own independent valuation team to check individual cases. The Council valued these assets on a five-year rolling programme.

Two Members asked about financial resilience and the longer term impact of borrowing in respect of the Regeneration Programme, Ms Larcombe confirmed that these aspects would be assessed.

A Member queried the variation since the previous year in the overall figure given for "materiality". Ms Larcombe referred to the background of KPMG finding that reasonable and robust controls had been in place and there had been no material errors in the accounts in the previous year. However, she would give further consideration to the materiality assessment.

A Member questioned the reference to a savings figure of £52.4m in the period to 2019/20 as contrasted to the Council's other statements that £83m was required by 2018/19. Ms Larcombe acknowledged that this should be checked and, if necessary, would be amended.

A Member was concerned that the general fund reserves of £10m were judged as “low” and queried the criteria used for these judgements. Ms Larcombe advised that much depended on the particular circumstances of the authority concerned, including the budget savings required and the degree of commitment in “earmarked” reserves. The auditors would also make appropriate comparisons with other authorities, but the variation of circumstances meant an informed judgement was more complex. Ms Larcombe undertook to address this in more detail when next reporting.

Ms Larcombe concluded the item by confirming the external auditors’ independence and requesting that the Committee confirm that it was content with the arrangements in place over fraud and any instances; this confirmation was given.

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

**167. INFORMATION REPORT - Audit Report on Grant Certifications 2015-16**

The Committee received a report on the Audit of Grant Certifications in 2015/16 which was introduced by Emma Larcombe of KPMG. The report summarised the outcome of audits of three claims: the Housing Benefit Subsidy, Teachers’ pension Contributions and the Pooling of Capital Receipts. Only minor issues had been identified as a result of these audits.

In response to a Member’s question, Ms Larcombe confirmed that there had been no adverse impact on the Council as a result of the points raised in respect of Housing Benefit Subsidy claim.

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

**168. INFORMATION REPORT: Internal Audit and Corporate Anti-Fraud Team: Mid-Year Report and Plan Update 2016/17**

The Committee received a 2016-17 mid-year report on the work of Internal Audit and the Anti-Fraud Team which was introduced by the Head of Internal Audit and the Corporate Anti-Fraud Service Manager. The report provided performance data on the services, explained how the audit plan had been updated and introduced the Internal Audit peer Review which was forthcoming.

In response to a Member’s query on the figures given for the value of fraud, the Corporate Anti-Fraud Service Manager confirmed that these were the estimated notional values of identified fraud activity rather than actual funds recovered.

Two Members questioned whether the Anti-Fraud Service had sufficient resources to cope with the demand in certain areas, giving the example of the quantity of Housing cases currently live. The Corporate Anti-Fraud Service Manager agreed that it was necessary to target resources in the areas of greatest risk both in terms of the feasibility and value of possible fraud; risk assessment processes were in place to underpin this. The Head of Internal Audit added that best use was made of resources across the two teams; in

response to a question on the adequacy of Internal Audit resources, she pointed out that, even if additional resources were available, this would result in a larger audit plan and circumstances such as unplanned work and staff maternity leave would still cause challenges in terms of covering work and meeting deadlines. In response to a related question on Bed and Breakfast accommodation for homeless families, the Corporate Anti-Fraud Service Manager advised that national formulae were used to examine this area. All properties recovered in housing fraud cases were allocated to homeless people.

A Member was concerned about the re-phasing of the audit of the Regeneration Programme into the first quarter of 2017-18 given that this had been identified as an area of high risk on the risk register and the overall scale of the programme. He compared this item to the priority given to responding to concerns about issues at a particular school. The Head of Internal Audit explained that available staff resources had been affected by maternity leave while some of the emerging risks during the year had involved financial irregularities and the possibility of continuing financial loss. She accepted that there were often difficult judgements in such circumstances, but she believed this had been the correct course of action given the immediate impact on the school involved. The Corporate Director, Resources and Commercial, confirmed that he had regular discussions with the Head of Internal Audit to re-assess priorities in the light of new demands and reducing resources; he confirmed the judgement they had reached, that it was appropriate to defer the Regeneration Programme audit by a short while in these circumstances.

A Member suggested that resource pressures could have been addressed by buying in additional support, for example, to avoid deferring the Regeneration Programme audit. The Head of Internal Audit advised that there was very limited availability of skilled, value-for-money staff in the market. While the Council had an arrangement with PwC, this was an expensive facility and therefore careful judgements had to be made about the value of using it.

In response to a Member's question about the management of varying levels of risk, the Head of Internal Audit confirmed that the audit plan was under regular review so that it responded to changing needs and priorities. The Corporate Director, Resources and Commercial, gave the examples of cases related to Housing Benefit and a school which had been mentioned at the last meeting of the Committee.

A Member pointed to a missing percentage figure in the last column of Table 2 in the report. In response to his query, it was confirmed that the reassessments reported in that Table demonstrated that appropriate controls and systems were in place. The outstanding items in Table 2 would be reported to the next meeting.

In response to a Member's question about the background to the "No Recourse to Public Funds" workstream, the Corporate Anti-Fraud Service Manager reported that it had developed from London-wide concerns, investigations and initiatives. It now involved positive partnership working with the Police and other agencies to track movements and relevant documents in

order to expose identity fraud. There were at least two cases which appeared close to the prosecution stage.

Two Members continued to seek assurances over the implications of the demands on existing staff resources, including asking whether the Council was exposed to risks in deferring audits in areas identified as high risk. The Head of Internal Audit advised that a number of audits and reviews were rescheduled as a result of changing circumstances and it was not the case that a postponement necessarily involved any increased risk. These adjustments to the programme were not uncommon and did not indicate any weakness of controls.

The Chair also pointed to the Council's other mechanisms, beyond the audit process, for monitoring and scrutinising various programme. A Member responded by suggesting that the Administration had sought to by-pass some of these arrangements, for example, by making decisions on the Regeneration Programme in a way which avoided scrutiny through the call-in mechanism. He argued that only very recently were the Opposition Members receiving the information required to exercise their proper role of holding the Administration to account. The Member referred to the case of Whitmore School where the financial position had not been reported properly to Members.

The Chair acknowledged that some Members were concerned over these issues, but he considered that the Governance, Audit, Risk Management and Standards Committee was the forum for discussion about audit controls rather than making broader points about the policy merits of different programmes.

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

**169. INFORMATION REPORT: Risk Management Strategy and Policy (2016/17- 2019/20)**

The Committee received a report on the work of Risk Management Strategy and Policy 2016/17 to 2019/20 which was introduced by the Head of Internal Audit. The report concerned the review of the strategy and policy carried out to ensure that the Council maintain a sound system for the management of risk.

A Member argued that the strategy and policy should make reference to the possibility of a change in political Administration at the borough elections in May 2018. The Head of Internal Audit underlined that these documents were subject to annual review and this aspect could therefore be addressed later; any new Administration would, in any event, be asked to indicate its risk appetite with regard to its policies and priorities.

Another Member referred to the debt figure of £334m cited in Paragraph 3.4 of the draft policy (Appendix 1) and compared this to the revised figure of £689m up to 2020 which had also been quoted by the Council as the anticipated overall debt. He asked whether this could reasonably be regarded as "low to medium levels of financial risk" as indicated in Paragraph 3.6. The Head of Internal Audit agreed that the higher figure could be included in the

document; with respect to the judgement of risk, she underlined that this was the view of the Council's senior management reflected in this draft policy. The Corporate Director, Resources and Commercial, added that the draft policy was due to be considered by Cabinet; Members would therefore have the opportunity to comment on the proposals. It was agreed that the issue be reported back to the senior managers concerned so that they could take it into account in producing the version of the draft policy for further consideration.

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

**170. Treasury Management Strategy Statement including Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2017/18**

The Committee received a report which set out the Council's Treasury Management Strategy Statement including Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2017/18; it was introduced by the Director of Finance. She confirmed that she would, as requested, provide information to Committee members on the level of precepts and levies once these had been clarified in March.

There were no comments made on the draft Treasury Management Strategy Statement including Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2017/18.

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

(Note: The meeting, having commenced at 7.30 pm, closed at 8.35 pm).

(Signed) COUNCILLOR ANTONIO WEISS  
Chair