

GOVERNANCE, AUDIT, RISK MANAGEMENT AND STANDARDS COMMITTEE MINUTES

5 APRIL 2017

Chair: * Councillor Antonio Weiss

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

* Denotes Member present

171. Change of Date of Meeting

The Chair apologised for the change of date of the meeting and thanked Members and officers for their cooperation in securing a suitable alternative. Councillor Macleod-Cullinane wished to put on record his dissatisfaction with the Council's formally approved programme of committee meetings being altered at relatively short notice for the convenience of a political group.

172. Attendance by Reserve Members

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

173. Declarations of Interest

No declarations of interest were made.

174. Minutes

RESOLVED: That the minutes of the meeting of the Committee held on 31 January 2017 be taken as read and signed as a correct record, subject to the following amendments:

- Minute 162 (Declarations of Interest) – the end of the sentence to be amended to read “... Councillor Amadi declared a non-pecuniary and non-disclosable pecuniary interest in that she worked in Wealdstone town centre.”
- Minute 168 (Page 70), penultimate paragraph – replace “programme” with “programmes”.

175. Matters Arising from the Minutes

Minute 168 (Internal Audit and Fraud Teams: Mid-Year Report and Plan Update 2016-17) (Page 69): the minute records that “the outstanding items in Table 2 (in the report) would be reported to the next meeting”, but the information had not been included on the agenda. It would be circulated separately to members of the Committee.

176. Public Questions, Petitions and Deputations

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

177. References from Council and other Committees/Panels

RESOLVED: To note that no references had been received.

RESOLVED ITEMS

178. Internal Audit and Fraud Team Plans for 2017-18

The Committee received a report outlining the draft plans for Internal Audit and the Corporate Anti-Fraud Team (CAFT) for 2017-18 and proposing approval of an Internal Audit Charter established in accordance with the Public Sector Internal Audit Standards. The report was introduced by the Head of Internal Audit and the Corporate Anti-Fraud Service Manager.

The Chair asked for clarification of the support provided by PwC in relation to IT, particularly in the context of previous discussions at the Committee about the cost and value for money of this support. The Head of Internal Audit explained that, while there had been a budget for specialist audit work on IT services for some years, this had now reduced to £18,000 per annum; where necessary, she would on occasion be able to supplement this from underspends elsewhere. This specialist work was expensive and very few authorities could afford to maintain an in-house service. The Council had therefore joined with five other authorities and PwC to form the Cross Council Assurance Service, a framework which allowed the councils to share

expertise and knowledge and make more effective and efficient use of PwC's support. As a result, it would be possible to carry out the IT-related work in the draft plan within the available budget.

A Member was interested in whether audit and anti-fraud staff were involved in networks involving other boroughs. The Head of Audit advised that there were meetings every other month for the officers in her role in London authorities as well as other networks for relevant staff.

A Member asked about how the absence of full independent assurance in relation to some areas which were the responsibility of the Head of Internal Audit, were mitigated (Section 2.12 of the report refers). The Committee was informed that, in a strict sense, the Public Sector Internal Audit Standards required heads of internal audit to declare where this independent assurance was not in place; in practice, the heads of internal audit in local authorities often had job responsibilities in relation to fraud and risk management which impact on their independence. The Standards were generally useful, but in some instances, they reflected "ideal world" solutions which were unrealistic in modern local authorities under significant budget pressures; as explained in the report, there were arrangements in place which mitigated the risk associated with variation from the Standards in this respect.

In response to a Member's question about the Peer Review of the Council carried out in 2016, the Head of Internal Audit confirmed that she had taken its findings and recommendations into account in preparation of the draft plan and proposed responses would be addressed in later annual governance assessments. The Corporate Director, Resources and Commercial, confirmed that the Council was still working on its response with a draft action shortly to be considered by Members.

A Member queried the implications of the fact that the Head of Internal Audit reported to a Corporate Director who had both responsibility for some of the areas subject to audit review and influence over the Head of Internal Audit's pay. It was explained that the remuneration of all the Council's staff was based on a formal, structured and objective job evaluation scheme and there was no Performance Related Pay arrangement in place. The practical reality in large organisations such as a local authority, was that there would always be reporting lines for staff in the audit role which might raise questions about objectivity and independence. However, there were a number of measures in place to mitigate this; these included the Head of Internal Audit's direct access to the Chair and Vice-Chair of the Committee, the Director of Finance and the Chief Executive. Indeed, the Chief Executive was keen to safeguard and continue this direct access by the Head of Internal Audit in order to protect the independence and effectiveness of the role. The Head of Internal Audit added that, in terms of personal approach, the role benefited from assertiveness and confidence in dealing with all staff and departments without fear or favour, and she was content and comfortable operating in this way.

In response to a question about the objectivity of the Head of Internal Audit in identifying risks for inclusion in the risk register, it was explained that the Interim Risk manager would do the initial work on this in consultation with senior managers, followed by a report to the Corporate Strategic Board. The

Head of Internal Audit would then challenge in respect of whether the proposed controls were judged to be satisfactory. Ultimately, the Committee itself was able to review the risks and controls.

A Member asked about the cost of a day's audit work as it might help inform judgements about its quality and effectiveness. The Head of Internal Audit advised that day rates for audit work were no longer used and it would therefore be time-consuming to make the necessary calculations. Apart from herself as head of service and a more junior assistant auditor post, there were four auditors on the same grade.

RESOLVED: That the Internal Audit and Corporate Anti-Fraud Plans for 2017/18 (Appendix 1 of the report) and the Internal Audit Charter (Appendix 2 of the report) be approved.

179. 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(s) for the reasons set out below:

<u>Item</u>	<u>Title</u>	<u>Reason</u>
11.	Corporate Risk Register, Quarter 3, 2016-17	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).

180. Corporate Risk Register (Quarter 3, 2016-17)

The Committee received a report on the Corporate Risk Register: Quarter 3, 2016-17, which was introduced by the Head of Internal Audit.

A Member asked about the role of the Head of Internal Audit in advising managers about the treatment of identified risks. The Head of Internal Audit underlined that responsibility for the management of the risk lay with the relevant service manager, though she would assist in identifying appropriate controls and challenge them if she considered them inadequate.

Another Member raised the following concerns:

- there was a need to be clear about the possible impact on costs of the risk associated with the Smoking Cessation programme item in the register, and the means of mitigating this risk;
- the issue relating to Cultura should have been placed in the risk register given the governance concerns which had arisen;
- school place planning had become more significant in view of the requirement to close the Pinner Wood School site due to subsidence;

- the risks related to the Medium-Term Financial Strategy could have very significant implications and the “B2” classification might not be high enough; there was a need to understand the overspends and risks more specifically rather than as an aggregated item;
- information should be provided which assessed the potential costs of identified risks.

The Head of Internal Audit advised that some of the points raised would be addressed in the content of the Quarter 4 report. The Director of Finance explained that it was difficult to quantify the potential costs of risks with any degree of reliability; there was a lot of subjective judgement involved and doubtful that the time and effort involved was justified by the usefulness of the figures. She considered that it was a better use of limited staff resources to focus on budget monitoring and adjustment. With respect to the Medium-Term Financial Strategy, the Director of Finance considered the B2 classification to be appropriate given overall progress with achieving savings targets, but the position would be kept under constant review. She accepted that it would be helpful to provide more specific information about the individual areas of budget pressure so that the risks could be scrutinised more closely; she would reflect this in Item 2 of the Corporate Risk Register as part of the Quarter 4 report.

In reply to a Member’s question on the number of risks which had materialised over the previous 12 months, the Head of Internal Audit undertook to obtain this information and advise the members of the Committee.

A Member considered that since the B2 rating for the risk associated to the Medium Term Financial Strategy implied a likelihood of as much as 80% that it would not be met, the Council ought to be taking more action to mitigate the risk than was set out in the risk register schedule (p.45, DRR Ref.2). Officers advised that the risk rating estimated the likelihood as between 51% and 80% and this range was considered appropriate given the context of significant budget challenges. The action points in the schedule did not represent the totality of the Council’s response; although June 2017 was identified as the next action point, as it linked to the timing of the previous year’s outturn figures, there would, of course, be continual monitoring of budget performance. The Director of Finance would consider the risk rating in the context of this performance.

A Member proposed that there should be more detail given on the financial risks in respect of individual projects rather than an aggregated item in the risk register about all major projects. He gave the example Project Infinity, involving very large sums of money and a potentially global reach, which should, in his opinion, be covered in more detail in terms of risk; he considered that there were questions over staff capacity and IT issues which should be addressed in managing the risks with the project. The risk for “Commercialisation fails to deliver expected benefits” (Item 13 in the register, Page 43 of the report) was rated as low as D2, yet there had been limited progress with product development and the projected income from Project Infinity had been deferred by a year. More generally, the Member was concerned that, in spite of many requests, no business cases for the various

commercial projects had been provided. The Head of Internal Audit agreed to consider presenting information about major projects in a more detailed format. She added that there would be a review of commercialisation projects as part of the Internal Audit Plan and this would provide a further opportunity to assess management of risk; the plan envisaged an audit in Quarter 2 of 2017-18.

The Member also referred to what he perceived as a failure to take into account the potential costs related to the UK's departure from the EU. The Chair cautioned that the report before the Committee was the Quarter 3 assessment and issues raised at the meeting could be addressed in Quarter 4.

The Head of Internal Audit reported that an Internal Audit review of Help2Let was currently underway. It was understood that the "deep dive review" mentioned in the register (DDR Ref.1, Page 44 of the report) had been undertaken as a Corporate Strategy Board task force review of a number of high risk areas; this would be confirmed by the next meeting of the Committee.

RESOLVED: That the report be noted.

(Note: The meeting, having commenced at 7.31 pm, closed at 8.31 pm).

(Signed) COUNCILLOR ANTONIO WEISS
Chair