

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

## **16 APRIL 2019**

**Chair:** \* Councillor David Perry

**Councillors:** \* Ghazanfar Ali \* Maxine Henson  
\* Peymana Assad \* Amir Moshenson  
\* Philip Benjamin \* Kanti Rabadia

\* Denotes Member present

### **47. Attendance by Reserve Members**

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

### **48. Declarations of Interest**

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

### **49. Minutes**

**RESOLVED:** That

- (1) the minutes of the meeting held on 5 December 2018 be taken as read and signed as a correct record;
- (2) the minutes of the meeting held 29 January 2019, be taken as read and signed as a correct record, subject to the following amendment:

Minute 46, paragraph 5, first sentence to be deleted and the same paragraph to commence with 'Councillor Perry stated that some questions ...'.

**50. Public Questions, Petitions and Deputations**

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

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

There were none.

**RESOLVED ITEMS**

**52. Information Report - Capital Strategy 2019/20**

The Committee received a report of the Director of Finance on the Capital Strategy for 2019/20, which provided an overview of how capital expenditure, capital financing and treasury management activity contributed to the provision of local public services and how the associated risks were managed.

An officer introduced the report and informed Members that the Strategy set out a high level view and drew attention to the appendix to the report. He added that non-treasury commercial investment was proportionate to the budget requirement and that only 5% of the Council's revenue budget had been invested in a commercial portfolio. Therefore, the associated risks were low in relation to the size of the revenue budget. He added that a further outturn information report would be submitted to the July 2019 meeting of the Committee.

Members asked a number of questions in relation to the various tables set out in the appendix to the report. They enquired about the impact on the Council's finances (table 6 referred) and the increase in debt of 70% (tables 3 and 4 referred) and whether this was the Council's recommended strategy.

In response to the questions, the Director of Finance stated that the tables reflected the Council's approved capital programme borrowing requirement. The intention was to minimise the cost of borrowing. The Director explained that some capital projects were self-financing, such as the depot and Vernon Lodge, which would result in at least neutral impact on the revenue budget. She added that the interest cost of capital borrowing was funded from the revenue budget. In relation to the debt, the Director explained that the Council had not borrowed for a number of years. However, £100m had been borrowed in April 2019 and she explained the ensuing challenges. The Council was conscious of the significant costs of borrowing and was therefore taking advice from the Council's Treasury Advisers and CIPFA (Chartered Institute of Public Finance and Accountancy) to confirm that the forecast borrowing level was sustainable. She pointed out that the Council would need to invest in the Capital Programme and it would be unusual not to review of capital schemes.

Questions from Members also related to the authorised level of debt (table 5 referred) and why more had been budgeted for, and whether capital financing requirements boundaries could exceed (table 4 referred). In response, the Director of Finance and an officer stated that there was a ceiling set on borrowing by the Council as part of its Treasury Management report. The Director added that the operational boundaries might be exceeded for example as a result of exceptional events, such as debt refinancing but this would be reported to the Committee at outturn should it occur. It was not anticipated that the capital financing requirement would be breached.

The Director of Finance acknowledged that various tables set out in the appendix required clarity in presentation and she undertook to provide Members with additional information.

The Chair welcomed the comments from Members and noted that an action plan would be submitted to the next meeting together with clarity in presentation.

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

### **53. Audit Committee Review**

The Committee received a report of the Director of Finance on the review of the Audit Committee undertaken as part of the 2018/19 Internal Audit Plan, a draft of which had been presented to the Committee in December 2018. This further report was presented to allow Members to add detailed information into the action plan as it progressed.

The Head of Internal Audit and Corporate Fraud introduced the report and referred to the proposed final version of the Audit Committee Review report and reminded Members that they had previously given agreement to all the recommendations at their meeting on 5 December 2018. She added that Members had also indicated their desire to add more detail as the action plan progressed and that she had taken the opportunity to include appropriate detail regarding the progression of the agreed action for the Committee's approval.

The Head of Internal Audit and Corporate Fraud also referred to the proposed report template for the Committee's Annual Report to full Council and sought the Committee's agreement to its use as a starting point for drafting the report. The template had been based on the Committee's revised Terms of Reference, as agreed by full Council on 28 February 2019, and from examples of similar reports used by other local authorities.

The Chair was of the view that flexibility ought to be retained in order to allow changes to be made to Committee's response to the Internal Audit report and he suggested an amendment to recommendation 1, as set out in the Committee report. Other Members agreed with this view.

A Member was concerned that corporate governance covered a wide array of issues and that the Committee might not be 'qualified' to deal with all aspects. He referred to the need to upskill Members in this regard and cited the example of training offered to Members of the Pension Fund Committee prior

to its meetings. In response, the Head of Internal Audit and Corporate Fraud undertook to send examples of how other local authorities tackled governance issues in their annual reports.

The Chair agreed that the upskilling of Members was important and referred to paragraph 3.1 of the Action Plan which addressed this issue and noted that a further report setting out options would be submitted to the July 2019 meeting of the Committee. In addition, the report would also include good practices such as consideration to appointing at least one independent member to the Committee with specialist expertise in the work of the Committee.

Prior to concluding business on this item, the Chair referred to the effectiveness of the Committee (paragraph 4 of the Action Plan referred) and how this issue could be addressed. He referred to his recent discussions with the Council's Chief Executive in this regard and highlighted the need to share experiences and seek feedback from various officers, external auditors and colleagues with a view to learning from each other.

**RESOLVED:** That, having reviewed the final Internal Audit report,

- (1) it be recognised that flexibility would be retained in order to allow changes to be made to the Committee's response to the Internal Audit report;
- (2) the detailed responses to the individual recommendations set out in the report, including implementation dates, be agreed;
- (3) the proposed Annual Report template be used as a starting point for drafting an annual report.

#### **54. Internal Audit and Corporate Anti-Fraud Plans 2019/20**

The Committee received a report of the Director of Finance, which set out the Internal Audit and Corporate Anti-Fraud Plans for 2019/20 for review and approval.

The Head of Internal Audit and Corporate Anti-Fraud introduced the report and explained, the purpose of the Internal Audit Plan and the Corporate Anti-Fraud Plan, as set out in the report, and invited comments and questions from Members. She added that senior management across the Council had been consulted on the Plans and that it had been approved by the Corporate Strategic Board (CSB).

The Head of Internal Audit and Corporate Anti-Fraud responded to questions as follows:

- flexibility was retained, which allowed Internal Audit to react to unexpected events and emerging risks;
- risk ratings were assigned to reviews included in the Plan and internal audit had undertaken risk assessments to rate risks that were not included in the Corporate Risk Register;

- the Plans focused on high risk areas and the risk assessments followed a standard methodology and included, for example, the value of the budget, issues raised by managers and reputation risks and a numerical value was given that was translated into high, medium or low risk rating;
- in relation to fraud investigations, trigger points were assigned which required engagement with external agencies and partners, such as the police. A judgement was made following evidence gathering on which agencies to involve and as the investigation team followed the PACE rules, there were no problems with handing investigations over;
- London boroughs had been asked to join the London Counter Fraud Hub, which had been piloted by four boroughs. The Hub initiative had not moved forward as it was felt that the Council had sound processes already in place for mitigating fraud risks in the areas covered by the initiative. The Council had expressed concerns about entering into a contract with no break clauses and the robustness of data used to produce estimated savings. To date, no London borough had joined;
- the security of the IT system related to high risks such as risk to loss of data;
- it was difficult to assess if more corporate anti-fraud staff would result in the uncovering of more fraud although it was considered likely given the current size of the team which was small;
- in relation to the performance indicator for recovery of 10 social housing units subject to fraud and misuse, the figure of 10 was an average and it was intended to achieve a 100% target. Outturn of achievements made and performance indicators achieved would be included in the year end report;
- IR35 (tax legislation designed to combat tax avoidance by workers supplying their services to clients via an intermediary, such as a limited company) and whether it was being correctly applied had been included due to the working experiences of the Chief Executive in other organisations where it had been an issue. It was important to minimise HMRC (Her Majesty's Revenue and Customs) penalties;
- it was up to individual contract managers to ensure that social value was being delivered but it was intended to look at the processes in place to ensure that they were robust. She noted the concerns expressed by a Member that this exercise would entail 20 audit days and undertook to review this estimate. The Chair stated that it was important that social value was enforced.

**RESOLVED:** That the Internal Audit and Corporate Anti-Fraud Plans 2019/20 and the Internal Audit Charter be approved in accordance with the Public Sector Internal Audit Standard 2020 Communication and Approval.

## 55. Urgent Business

### Draft Statement of Accounts 2018/19

The Director of Finance sought the Committee's view on how they wished to receive the draft Statement of Accounts given that these had to be published by 31 May 2019 instead of June 2019 which had been the situation prior to 2017-18. An earlier deadline meant that the Committee would not have an opportunity to review the draft accounts before the external auditors presented their final report.

The Director set out the options available and it was

**RESOLVED:** That the draft Statement of Accounts be sent to all Members of the Committee by email and that they contact the Director of Finance with any questions or comments.

## 56. Exclusion of the Press Public

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 items of business for the reasons set out below:

<u>Item</u>	<u>Title</u>	<u>Description of Exempt Information</u>
13.	Information Report: Internal Audit Red Assurance Reports	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).
14.	Information Report: 2018/19 Corporate Risk Register Quarter 4	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).

## 57. Information Report: Internal Audit Red Assurance Reports

The Committee received a confidential report of the Director of Finance, which set out a final red assurance report, a final red/amber assurance report and the actions taken by Internal Audit, as part of the 2018/19 Internal Audit Plan, to help fulfil the Committees purpose to provide assurance to Members of the adequacy of the Council's governance, risk management and control framework.

The Head of Internal Audit and Corporate Anti-Fraud introduced the report and referred to the red assurances in respect of two areas. She added that all recommendations made were being implemented and that a formal internal audit follow-up of the implementation of the recommendations of one of the areas had already been undertaken and was covered in the report and that a follow-up of the other area would be undertaken in May 2019 and reported to the Committee thereafter.

Members asked a series of questions and enquired if robust systems were in place, particularly in relation to one of the areas. Members also asked if other mechanisms were being investigated to help reduce fraud and how these impacted on staff, including the methods of communications used. Officers from the area responded to the questions and assured Members that abuse of systems was rare and the Council's Code of Conduct for Council Employees and the Staff Handbook set out the conduct expected of all staff. They stated that robust systems were in place and fraud was rare in this area but officers were not complacent.

Members noted the issues and welcomed the recommendations that had been put in place. They wanted to ensure that staff training was an integral part of the ethos behind the operation of any premises.

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

**58. Information Report: 2018/19 Corporate Risk Register Quarter 4**

The Committee received a confidential report of the Director of Finance, which set out the Council's 2018/19 Corporate Risk Register for quarter 4 of the financial year to enable the Committee to monitor the progress on risk management in accordance with its Terms of Reference.

The Head of Internal Audit and Corporate Anti-Fraud introduced the report and referred to the various risks, some of which had been mitigated. Members suggested a number of matters that ought to be included in the Risk Register and the Head of Internal Audit and Corporate Anti-Fraud undertook to refer these to the Council's Corporate Strategic Board (CSB) for consideration. She also explained why some items had been included in the Risk Register.

The Head of Internal Audit highlighted the emerging risks which were being explored. Members asked some pertinent questions in relation to one of the emerging risks, which were responded to.

In conclusion, the Director of Finance undertook to send further details to Members relating to their questions on the Local Resilience Fund.

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

(Note: The meeting, having commenced at 7.34 pm, closed at 9.40 pm).

(Signed) COUNCILLOR DAVID PERRY  
Chair