

# GOVERNANCE, AUDIT, RISK MANAGEMENT AND STANDARDS COMMITTEE MINUTES

## 18 JULY 2017

**Chair:** † Councillor Antonio Weiss

**Councillors:**

* Ghazanfar Ali	* Amir Moshenson
* Maxine Henson	* Nitin Parekh (1)
* Barry-Macleod-Cullinane (Vice-Chair in the Chair)	* Pritesh Patel (2)
	* Krishna Suresh (3)

\* Denotes Member present  
(1), (2) and (3) Denote category of Reserve Members  
† Denotes apologies received

### 181. Attendance by Reserve Members

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

Ordinary Member

Councillor Mrs Rekha Shah  
Councillor Bharat Thakker  
Councillor Antonio Weiss

Reserve Member

Councillor Krishna Suresh  
Councillor Pritesh Patel  
Councillor Nitin Parekh

### 182. Appointment of Vice-Chair 2017-18

**RESOLVED:** That Councillor Barry Macleod-Cullinane be appointed as the Vice-Chair of the Committee for the 2017-18 Municipal Year.

Councillor Barry Macleod-Cullinane in the Chair.

**183. Declarations of Interest**

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

**184. Minutes**

**RESOLVED:** That the minutes of the meeting held on 5 April 2017 be taken as read and signed as a correct record.

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

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

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

There were none.

**RESOLVED ITEMS**

**187. INFORMATION REPORT - Draft Statement of Accounts 2016-17**

The Committee received a report which set out the Council's draft financial accounts for 2016-17. The Director of Finance advised that they had been prepared three weeks prior to the deadline and were now subject to any comments in the notice period; to date, there had been no representations. A report on the final accounts would be made to the Committee in September along with the external auditors' opinion. The timetable for the submission of accounts would change for 2017-18, with the draft Statement of Accounts required to be available by 31 May 2018, and the audit required to be completed by 31 July 2018. Decisions would need be made on how to liaise with the Committee on the draft accounts given the new timetable.

In response to a Member's query about the placement of Pension Fund balances with RBS when their rating had slipped below the usual level required for investment of Council funds, an officer confirmed that RBS was the Council's corporate banker, that the requirement in this instance was for liquid investments, sometimes overnight deposits, and that RBS was in any event backed by the UK Government.

A Member asked about the £5.4m property investment reported at Page 67 of the report. The Director of Finance reported that the Council had purchased a building in Manchester as part of a strategy approved by the Cabinet to take advantage of property yields. Due diligence was always carried out before such transactions were finalised.

The Member also asked about the reference to "deferred proceeds on sale of assets" in the table at Paragraph 5.14. It was explained that this related to

properties received in lieu of cash in respect of the disposal of premises in Gayton Road. The accounting had been based on the “estimated fair value”.

In response to a Member’s question about the £8,000 cost reported in the table at Paragraph 5.30, it was explained that this related to dealing with the objection to the accounts. The same Member’s query as to where to find information on the amortisation of plant and machinery was also answered.

A Member asked the Director of Finance whether she was confident that the level of borrowing for capital financing remained at a prudent level since the report indicated that it now represented 62% of the capital financing requirement. The Member reported that the Chief Executive had indicated some concern over the level of borrowing. The Director of Finance emphasised that the key aspect of the level of borrowing was the ability to finance it, and the Council had appropriate plans in place. However, she also acknowledged that the Council’s financial position was changing and that, in view of the budget pressures, a review of capital projects and the regeneration programme was intended. The Director of Finance agreed to update the Committee about this at the next meeting.

In response to a Member’s query, it was explained that the reference to the “unspent balance of capital maintenance grants for schools” concerned the timing of grants from the Department of Education for school projects; the funds made available would be spent.

A Member suggested that the reference to “overall nil variance” of spend against the 2016-17 budget at Paragraph 1.2 of the draft accounts, gave a misleading impression, and that there should be some narrative to explain that the nil variance in accounting terms was as a result of the transfer of various corporate items and reserves. This would be taken up with the external auditors.

In response to a Member’s question about the statement at Paragraph 21 of the covering report stating that there were “no risks implications”, it was explained that this was simply about content of the accounts themselves which were reported for information at this stage. Clearly, there would be risk implications in various aspects of the Council’s financial plans which were addressed separately.

A Member had carried out some provisional calculations comparing the figures given at Paragraph 5.29.1 of the accounts, and had estimated that there had been an increase of some £0.5m in the costs of these senior staff paid in excess of £50,000 as between 2015-16 and 2016-17. He proposed that this should be clarified in the document. The Director of Finance stated that this was not normally reported in the accounts, although she could provide Members with a separate explanation.

In response to a Member’s query about business rate revenue, the Director of Finance reported that the principal risks related to the uncertainties over the Government’s plans to reform the regime for non-domestic rates; however, no adjustment to the Medium Term Financial Strategy was proposed in this respect pending clarification of the Government’s position.

A Member asked about the valuation of the Council's property assets in the context of prices growth slowing. It was explained that all properties in the Council's ownership were valued on a rolling programme with about 20% covered in any one year, though high value assets were valued more frequently.

In response to a Member's query about the £2.48m revenue surplus figure against the Regeneration Department for 2016-17 (Paragraph 1.2 of the accounts, Page 23), it was confirmed that this reflected the effect of various income streams such as building control services. In response to another Member's query about "Section 106" income from planning consents, it was confirmed that this was kept separately with reserve funds.

A Member queried the financial health of the Housing Revenue Account (HRA) and the particular reference to proceeds from the sale of assets. He suggested that once the income from these sales was taken into account, the figures reported to Members suggested that the HRA was in a weakened position and he asked for clarification as to how the situation would be managed. The Director of Finance referred to the report submitted in February 2017 on the state of the HRA and acknowledged that it was under pressure from a range of factors including legislative changes and the introduction of the rent cap. The Housing Department would be looking to bring forward savings proposals to address the budget position. This report on the financial accounts focused on providing a "true and fair view" of the Council's finances as at the end of March 2017, and the judgment about the longer-term health of the HRA would require a broader assessment as part of the Council's regular budget monitoring reports. It was explained that the "proceeds of sales" mainly concerned Right-to-Buy disposals, but also a significant £2m overage secured in relation to one particular sale.

**RESOLVED:** That the report on the draft Statement of Accounts and Pension Fund Annual Report for 2016-17, be noted.

#### **188. INFORMATION REPORT - Treasury Management Outturn 2016/17**

The Committee received a report which summarise treasury management activities in the 2016-17 financial year.

On behalf of the Chair of the Committee, who had submitted his apologies to the meeting, the Vice-Chair asked about the outlook in respect of interest rates. The Director of Finance advised that the Treasury and Pension Fund Manager would be reviewing options and these would include use of money market funds. The Council required liquid options which constrained returns, but every effort was made to secure the best rates available. Similarly, the cash balances were relatively small compared to other investors and it was increasingly difficult to find better options when interest rates were declining across the board. An officer advised that the decline between 2015-16 and 2016-17 in the average life of in-house investments from 74 days to 11 days, reflected longer term loans falling out and the strategy of retaining liquidity. The Director of Finance added that some authorities were moving to active management of funds in order to reduce cash balances to zero. In response

to a Member's query about the future of interest rates, the Vice-Chair referred to the value of cash holdings depreciating to such an extent that Swiss institutions were charging investors to hold cash; he referred to the risks of this in relation to the Council's borrowing plans.

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

**189. INFORMATION REPORT - Internal Audit and CAFT Year End Report 2016/17**

The Committee received a report outlining the 2016/17 year end reports for Internal Audit and the Corporate Anti-fraud Team, including the Head of Internal Audit's draft overall audit opinion on the control environment. An officer reported that all the performance indicators for her service had been met with some exceeded. She corrected Paragraph 2.5 of the report, stating that there had been three "red" assurance reports, rather than two, and also referred to particularly challenges during the year, including responding to the theft of funds at Harrow Arts Centre.

On behalf of Chair of the Committee, the Vice-Chair commended the performance of the services and asked about the item concerning the manipulation of data by a former Headteacher of a Borough school. The officer advised that completion of the Human Resources investigation report by the Independent Human Resources advisors, as recommended by Internal Audit, was still awaited; appropriate action would be considered when that report was available.

In response to Members' questions about the Arts Centre theft of funds, the officer briefly explained the circumstances and the judgments made about the effectiveness of possible responses.

An officer outlined the aspects of the report relating to the Corporate Anti-Fraud service; he drew attention to the cases reported in Appendix 3 and to the brief update on the service plan progress for 2017-18. He highlighted the growing threat from fraud and cyber-crime which now constituted almost one out of every two crimes recorded according to the Crime Survey of England and Wales 2016.

In response to a Member's query about partnerships with other councils, the officer confirmed that closer working was carried out with other London Boroughs and there was a strong connection in West London with Ealing, Hillingdon, Hounslow, Barnet and Brent and the London Councils anti-fraud community met twice a year as a group to discuss fraud patterns and trends, emerging fraud risks and any initiatives to combat fraud.

A Member asked about the issue of sub-letting of social housing and the officer reported that whilst nationally housing tenancy fraud was a significant fraud risk for Councils, Harrow had a number of controls in place to combat it and worked closely with Housing. Another Member suggested that savings in temporary accommodation costs might justify additional investment in investigations in this area. The officer reported that all cases that were set live on the housing waiting list underwent a fraud check before any individual/

family was allocated a permanent tenancy. The officer advised that there were about 40 to 50 live tenancy fraud cases under investigation at any one time and the service was managing to respond to the fraud referrals. It was confirmed that tenants' photographs had been included on tenancy agreements for a number of years now and this provided a useful added layer of fraud risk control. There were, however, many variables in these cases across London, and the robustness of housing management was a key factor.

In connection with Paragraph 2.12 of the report, a Member asked how the £1.13 million identified as loss avoidance due to fraud either being prevented or intercepted, had been calculated. The officer advised that figures were a combination of loss avoidance (the vast majority) and actual loss. The Right-to-Buy discount rate of £103,900 had been used to calculate loss avoidance in cases where the application had been intercepted. Other Councils used the rebuild costs of £150,000 as a loss avoidance figure, had the application not been intercepted. In cases of tenancy fraud (sub letting and non-occupation of the social tenancy). Harrow used the temporary accommodation costs for housing a family for a year, multiplied by the average waiting list time for each sized property to calculate the loss avoidance figure. There was no one particular formula for this estimate across the country, but a range of different elements.

Referring to the case reported in Appendix 3 of a tenant found to be resident in the United States of America and a US citizen, a Member asked what arrangements were in place to detect such frauds. The officer advised that tracking such individuals was a challenging task requiring close and targeted enquiries which need to be intelligence led to avoid allegations of 'fishing'. The matter had been raised with the Home Office and information obtained confirming the US residency. The Cabinet Office a two-yearly data matching exercise which could highlight fraud. Other data matching was used across a range of databases with credit agencies often providing useful leads. The Council's Housing Department had a rolling programme of tenancy audits which assisted the authority determine who occupied housing stock. In response to another Member's question, it was confirmed that some internal databases could be electronically matched in an automated way, but in other cases, the interfaces were a manual check.

A Member queried the extent of cyber attacks on Council systems. An officer reported that an audit had just been completed which had revealed a small number of incidents which had been appropriately managed and controlled; a reasonable assurance rating had been applied to the risk.

In response to a Member's enquiry about the planning enforcement case reported in Appendix 1, the officer confirmed that the opportunity to introduce stronger controls had been identified, but there had been insufficient progress in implementing these. This had been taken up with the relevant Divisional Director.

A Member asked about the blocked invoices issue reported in Appendix 1. The officer reported that this related to some delays in meeting the 30-day deadline for payments and a lack of coordination between those making

requisitions and budget holders. The issue had been raised with ESG who were the relevant contractor.

In response to a Member's enquiries about mandate fraud reported in Appendix 1, the officer advised that this concerned the need for more robust procedures in responding to requests for bank account information to be altered. A Member also asked about payments for arboriculture work, and the officer stated that management should be checking work undertaken before payment at least on a sample basis.

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

#### **190. INFORMATION REPORT - Draft Annual Governance Statement 2016/17**

The Committee received a report Council's Draft Annual Governance Statement (AGS) for 2016/17 required to meet the requirements of the Accounts and Audit Regulations 2015.

An officer explained that the AGS had been drafted in accordance with a new CIPFA/SOLACE framework which clarified that a formal Code of Governance was not required. Consequently, it proposed that the Council adopt a more flexible, interactive governance structure available on the intranet and as set out at Appendix 3. The draft governance statement had been issued to the external auditors.

The Vice-Chair supported the proposal for a more interactive, web-based approach and suggested that use be made of video and audio to make it more user-friendly. However, he underlined the importance of ensuring that staff and others could find the information quickly online without complicated navigation and searches.

In response to a Member's query about provisions in the draft AGS which might cover the Council's increasing commercial activities, the officer confirmed that Appendix 5 dealt with the Council's work with a range of partners, including the set-up of Council-owned private companies. Whilst it would not be possible to assess the governance arrangements of all partners/companies this year, a rolling programme would be put in place. In response to the Member's suggestion that all private companies set up by the Council, be required to adopt a similar code of governance, the officer agreed that this would form part of her review on which she would report to the Committee in September.

The Vice-Chair referred to a discussion at the Overview and Scrutiny Committee the previous evening when the Portfolio Holder for Finance and Commercialisation had fielded questions on the regulations and guidance followed by the Concilium group of companies in relation to contract, financial and health and safety issues. The discussion had included concerns about the transparency of the companies' operations and possible conflicts of interest among those responsible for running them. He did not consider that the Council's relationship with these companies was one of "partnership" in the conventional sense, and he remained concerned that there was insufficient understanding of their governance arrangements; in his view, this

was becoming more important as resources were now being committed at a significant level and the expectations of income generation were important in the context of the Council's overall budget. The Vice-Chair suggested that similar attention should be paid to other initiatives involving private sector partners on which the Council was relying heavily, such as Project Infinity. The officer stated that the governance arrangements of such initiatives would be covered by the annual review of governance.

**RESOLVED:** That the Council's Draft Annual Governance Statement for 2016/17 be noted and endorsed.

(Note: The meeting, having commenced at 7.30 pm, closed at 9.10 pm).

(Signed) COUNCILLOR BARRY MACLEOD-CULLINANE  
Vice-Chair in the Chair