

Governance, Audit, Risk Management and Standards Committee

Minutes

30 November 2021

Present:

Chair: Councillor David Perry

Councillors: Dean Gilligan Kanti Rabadia
Kairul Kareema Marikar

Joined virtually: Philip Benjamin Antonio Weiss
Amir Moshenson

188. Attendance by Reserve Members

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

189. Declarations of Interest

RESOLVED: To note the declarations as published on the Council's website prior to the meeting and the following additional declaration made by Councillor Kairul Kareema Marikar during consideration of:

Agenda Item 11 – Statement of Account

Councillor Marikar declared an interest in that she had a care business. She would leave the Chamber if the interest became pecuniary.

190. Minutes

RESOLVED: That the minutes of the meeting held on 12 October 2021, be taken as read and signed as a correct record.

191. Public Questions

RESOLVED: To note that no public questions were received.

192. Petitions

RESOLVED: To note that no petitions had been received.

193. Deputations

RESOLVED: To note that no deputations were received at the meeting under the provisions of Committee Procedure Rule 16.

194. References from Council and other Committees/Panels

None received.

195. Late Reports

Members agreed to accept the late reports for the special circumstances and grounds of urgency set out in the supplemental agenda. However, the Chair and the Vice-Chair stressed the importance of such technical reports being submitted to the Committee on time and with the main agenda.

Resolved Items

196. Information Report - Audit Completion of Statement of Accounts 2019-20 - Annual Audit Letters

The Committee received a report of the Director of Finance and Assurance, which set the Annual Audit Letters for the Council and Pension Fund issued by the Council's external auditor, Mazars LLP, for the financial year ended 31 March 2020 for consideration. The report also referred to the completion of the external audit for the financial year 2019-20.

An officer introduced the report and highlighted the key positive conclusions arising from the external auditor's work, which were as follows:

- an unqualified audit opinion and value for money conclusion;
- no audit recommendations issued.

The officer added that the Audit Letters would be replaced with Annual Audit Reports in the future.

The Chair welcomed Lucy Nutley (Director) from Mazars LLP, the Council's external auditor, to add to the introduction and respond to questions from Members. Lucy Nutley drew attention to the executive summaries set out in the enclosures to the report. Members noted the reports from Mazars and agreed that any questions relating to the Council's performance and delivery

on issues such as Regeneration ought to be considered under the Statement of Accounts, Minute 199 refers.

RESOLVED: That the report be noted.

197. Annual Governance Statement 2020/21

The Committee received a report of the Director of Finance and Assurance, which set out the Head of Internal Audit's Final Audit Opinion and the Annual Governance Statement (AGS) for 2020/21.

The Head of Internal Audit and Corporate Anti-Fraud introduced the report reminded Members that they had received a draft ASG in July 2021. The Head drew Members' attention to the governance issues that she considered to be of particular significance:

- the Depot Redevelopment Project, which was no longer considered to be a significant governance gap; details of which were set out on page 35 of the main agenda;
- an emerging issue, allegations of fraud and corruption, which was currently the subject of a criminal investigation and which had been covered in Part II (confidential) verbal briefing at the last meeting. Members were informed that the outcome of the investigation would be reported to the Committee in due course.

The Chair welcomed the transparency and the challenges faced by the Council but highlighted the need to recognise and applaud the positive elements within the report.

RESOLVED: That

- (1) the Head of Internal Audit's final audit opinion 2020/21 be noted;
- (2) having reviewed the Annual Governance Statement 2020/21 in line with the Committee's terms of reference, and confirmed that the Annual Governance Statement (AGS) properly reflected the risk environment and supporting assurances and legal and financial advice, taking into account internal audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control; the Committee was satisfied and recommended it for approval by the Leader and Chief Executive.

198. Information Report - Audit Progress Report

The Committee received a report of the Director of Finance and Assurance, which included an appendix that provided an update on progress from Mazars LLP, Council's external auditor, on the delivery of their responsibilities and highlighted the potential risk of there being a significant weakness in Value for Money (VFM) arrangements relating to an alleged identified fraud.

Lucy Nutley (Director) from Mazars LLP informed Members that the new Code of Audit Practice issued by the National Audit Office had changed the work that auditors were previously required to do on the Council's arrangements to deliver VFM, details of which were set out on page 43 of the supplemental agenda. She added that the related reporting arrangements had also changed in that any weaknesses in VFM arrangements had to be reported to those charged with governance, which was the GARMS Committee.

Lucy Nutley reported on a potential significant weakness in arrangements in an area in relation to the operation of internal controls and the achievement of value for money. A further report, the Auditor's Annual Report, was intended to be submitted to the April 2022 meeting of the Committee, which would contain this risk and set out the need for any further recommendations to be issued or confirm that appropriate mitigating actions had been taken by the Council.

Lucy Nutley responded to questions from Members as follows:

- the work carried out by Mazars LLP would include a review of the findings and recommendations of the internal audit, including the progress made by management in their implementation. Additionally, consideration would be given to the findings and recommendations of the Independent Review, commissioned by the Council's Chief Executive, including the progress made by management in their implementation of any recommendations;
- the report in April 2022 would detail the outcome in relation to this risk but she pointed out that the risk may continue until 2022/23;

The Chair stated that the Council's Internal Audit team were involved in the review of the risk and that Councillors would also be involved. The Head of Internal Audit and Corporate Anti-Fraud reported that information could not be made public until the Police had concluded their investigations into the allegations but that the work being carried out by her team and the Independent Review would continue to be reported to the Committee when possible.

RESOLVED: That the report be noted.

199. Statement of Accounts 2020-21

The Committee received a report of the Director of Finance and Assurance, setting out the audited Statement of Accounts for 2020-21 which were subject to the issue of the audit opinion.

Lucy Nutley (Director) from Mazars LLP, the Council's external auditor who had prepared detailed reports on matters arising from the audit of the Statement of Accounts and the Pension Fund Annual Report, drew Members' attention to the Executive Summary on page 241 of the supplemental agenda and outlined the key messages therein, including that their opinion on the financial statements was subject to further work being carried out, but it was

anticipated to be an unqualified opinion on the financial statements. She hoped that the financial statements would be signed off in December 2021.

Members' attention was also drawn to the significant audit risks identified, which were, in the following areas:

- management override of controls;
- revenue recognition;
- property plant and equipment valuation, including investment property (noting that a material valuation uncertainty had been recorded on the valuation of investment property of a specialised nature);
- defined benefit pension liability valuation (noting that a material valuation uncertainty had been recorded on the valuation of the Council's share in the Pension Fund assets);
- grants accounting.

Lucy Nutley referred to supplemental agenda pages 261 onwards, including appendices A and C, and identified areas including those where Mazars had been satisfied with the Council's management responses to the internal control recommendations and the summary of misstatements. Together with Stuart Frith (Manager – Mazars LLP), she responded to Members' questions as follows:

- the valuation of investment property assets and holdings held in the Council's Pension Fund in areas such as retail and leisure and where the impact of Covid-19 was ongoing would show the "emphasis of matter" within the audit opinion, due to the fact a material valuation uncertainty had been recognised in the formal valuation;
- the Pension Fund accounts were set out separately. Approximately 80% of the Pension Fund related to current and former Harrow employees.
- the changes in financial assumptions of approximately £260m, used in calculating the defined benefit pension liability, as set out on page 121 of the supplemental agenda, was due to a change in assumptions applied compared to in the previous year. All assumptions applied had been reviewed and compared to the national report issued by Pricewaterhouse Coopers LLP. The change arose from a number of factors, all of which would increase the liability of the Council: increases in overall life expectancy, salaries and pensions. The figure of £260m was calculated by the Pension Fund's actuary in accordance with the relevant code of practice. Mazars had assessed the independence of both the actuary (appointed by the National Audit Office) and Pricewaterhouse Coopers LLP and the assumptions made were appropriate;

- in respect of IT Security, there had been no indication of any untoward access of IT by former employees but that the ability to do so had been present. All Internal Audit Plans would cover any issues with the IT and extra testing would be carried out to test for potential breaches.

The Director of Finance and Assurance also responded to a question on the lessons learnt as a result of the Covid-19 pandemic which might be applied in any future potential waves, both in terms of the production of the accounts and the overall impact on the Council and its finances, including the making of policy decisions. The Council had faced a challenging financial budget in 2020/21 but had delivered a balanced budget. Similar principles were being applied this year (2021/22) and it was anticipated to be 'business as usual'. A small amount of Covid funding had been received from the government compared to the previous year. However, the Council was mindful that no such funding would be received next year (2022/23).

The Chair outlined the role of the Committee and the need for a robust challenge in both the Council's finances and the work carried out by its external auditors. Lucy Nutley added that good practices were shared amongst local authorities. She responded to additional questions from the Chair in regard to the Redmond Review and the implications the recommendations would have on the Council. She explained that whilst the recommendations had been accepted by the DLUHC (Department of Levelling Up, Housing and Communities), they were not required to be implemented yet and direction was awaited. The biggest change was the requirement for the external auditor to report to full Council.

In response to additional questions, the representatives from Mazars LLP

- undertook to provide a written response to all Members of the Committee in relation to the query on usable reserves of £159m and how these would be recovered if realised;
- stated that further information on risks as a result of the Covid-19 pandemic, regeneration aspirations of the Council and governance would be included in the report to April 2022 meeting of the Committee.

Members' attention was then drawn to the Executive Summary relating to the Harrow Pension Fund (year ended 31 March 2021), page 285 of the supplemental agenda referred, which set out the conclusions on the audit opinion, consistency report and wider powers. Members were advised of any significant findings as set out on pages 291 and 292 of the supplemental agenda and the summary of misstatements on page 297 of the agenda.

Stuart Frith and the Council's Director of Finance and Assurance responded to questions from the Committee in relation to the funding of the Pension Fund. For the purposes of IAS 19 (International Accounting Standard), the Fund was 70% funded and due to longevity and other reasons identified earlier, the deficit had increased. However, these were forecasts and the situation could change. The Director of Finance and Assurance advised Members that the Pension Fund was well funded and was monitored

quarterly. Provision had been made in the revenue budget to allow for contributions to any deficit in the Fund.

A further explanation was provided by an officer – the employer contributions were assessed by the actuary at each triennial valuation, and were calculated on an “ongoing funding basis” which reflected that the scheme was open to future accrual of pensions. On that basis, the scheme was currently 104% funded. IAS 19 used different assumptions, and assessed the extent to which the current pension liabilities were covered by the Fund’s investments at the date of the accounts. The different assumptions used in the two funding calculations were outlined on pages 227 to 229 of the supplemental agenda. The caveats that needed to be applied to the Fund were: future pay increases, inflation, number of staff employed and mortality/longevity.

On the question of the “emphasis of matter” in respect of the Pension Fund’s property investments, Stuart Frith added that Mazars LLP did not have direct access to the Pension Fund and information was requested from the Fund Managers. Mazars would rely on the Fund Manager’s independence and expertise and were satisfied with the Fund Manager and an emphasis of matter would be issued in line with expectations. Mazars would have brought any issues to the attention of the Committee, including the work of the Pension Fund Committee and the Pension Board. Control reports of the Fund Manager would be studied, including their management of Funds. Any issues would have been reported and brought to the attention of this Committee. An unqualified opinion should be expected.

The Chair requested that the Director of Finance and Assurance report back to the Corporate Strategy Board on the discussion of the Committee in respect of the report, including the scrutiny it had made, together with the positive delivery of numerous Council priorities/policy areas.

RESOLVED: That, having considered the draft Audit Completion Reports of the External Auditor on matters arising from the audit of the Statement of Accounts 2020-21 and the Pension Fund Annual Report 2020-21,

- (1). the audited Statement of Accounts 2020-21 be approved and the Chair be authorised to sign the accounts, subject to resolution 3 below;
- (2). the Pension Fund Annual Report 2020-21 be noted;
- (3). the Director of Finance and Assurance, following consultation with the Chair, be authorised to make any final amendments to the Statement of Accounts 2020-21 and the Pension Fund Annual Report 2020-21 arising from the external audit prior to the signing by the auditor;
- (4). the Summary Statement of Accounts 2019-20 be noted.

(Note: The meeting, having commenced at 6.31 pm, closed at 8.07 pm).

(Signed) Councillor David Perry
Chair