

# GOVERNANCE, AUDIT AND RISK MANAGEMENT COMMITTEE MINUTES

## 28 SEPTEMBER 2010

**Chairman:** \* Councillor John Cowan

**Councillors:** \* Mano Dharmarajah \* Richard Romain  
\* Thaya Idaikkadar \* Krishna Suresh (3)  
\* Nizam Ismail \* Yogesh Teli

**In attendance:** Bill Stephenson  
**(Councillors)**

\* Denotes Member present  
(3) Denotes category of Reserve Members

### 32. Attendance by Reserve Members

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

Ordinary Member

Reserve Member

Councillor Sachin Shah

Councillor Krishna Suresh

### 33. Declarations of Interest

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

### 34. Minutes

**RESOLVED:** That the minutes of the meeting held on 1 September 2010, be taken as read and signed as a correct record.

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

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

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

There were none.

## **RESOLVED ITEMS**

### **37. Statement of Accounts 2009/2010**

The Committee received a report that set out changes to the Statement of Accounts 2009/10 that had been made following consideration of the draft accounts at the last Governance, Audit and Risk Management (GARM) Committee meeting.

The Corporate Director of Finance and the external Auditors, Deloitte LLP advised that whilst considering the draft accounts the external auditor and the Council had identified issues relating to the management and control of the Capital Programme. As a result, the Council had initiated an investigation on capital expenditure. They added that mitigating measures had been put in place. The Leader of the Council, the Leader of the Conservative Group and the Chairman had been informed and would be updated on the progress of the investigation. Officers were unable to comment on the position at this stage as the investigation was ongoing, however, discussions between finance officers and the Auditors would continue until the investigation was completed. Nevertheless, officers and the external Auditors were confident that the results would not have an impact on the total amount of Capital expenditure reported in the accounts for 2009/10. The Auditors stated that they would confirm whether they would sign the accounts in line with the timetable after a discussion on this matter with the Corporate Director of Finance.

An outline of the Auditors reports was provided for which representatives of Deloitte LLP reported as follows:

- a number of changes to the Audit Commission and their work had been made since the start of the 2010/11 financial year. The Audit Commission would continue to operate under the existing framework until it was abolished in 2012. Local Value for Money (VFM) audit work was no longer in operation and had not been applied to the statement of accounts 2009/10. As a result, local Use of Resources scores would not be published this year. For 2010/11 a targeted better value approach had been adopted. Results of local VFM audit work would be reported in the annual audit letter;
- the auditors were independent of the Council and had completed the report on the Statement of Accounts in accordance with the government's accounts return principles. The Audit certificate for 2008/09 and 2009/10 accounts would be issued following the

resolution of an outstanding objection relating to parking charges by a local elector;

- a number of misstatements in the accounts had been identified. These included:
  - a surplus of £929,000 had been reported for net assets. As a result, further control mechanisms for the valuation of fixed assets had been introduced by officers;
  - following an actuarial valuation of the insurance fund, the insurance provision included in the 31 March 2010 statement of accounts was £5.161 million. The opinion of Auditors was that a surplus of £400,000 had been included in this estimate of future payments for insurance claims. Taking this into account, it was believed that the true figure was £4.7 million;
  - the actuary had calculated and reported on the assets of the pension fund in accordance with Financial Reporting Standard 17 (FRS17- Accounting for Retirement Benefits, such as pensions) disclosure. Due to the volatility of the markets and resulting current public sector spending pressures, the audit opinion was that the amount calculated was overstated by £6.158 million. As there was a difference in the actual and estimated amount, this had been adjusted in the Statement of Accounts;
  - the Housing Revenue Account had been misstated by £49 million. This may have been caused by an administrative error and movements in the property market between 1 April 2009 and 31 March 2010. A number of control mechanisms had been recommended for implementation by the Auditors;
  - management's methodologies and assumptions used to calculate bad debt provisions had been reviewed. Bad debt provisions for Council Tax and Housing Benefit had been overstated by £1.291 million and £748,000 respectively. As a result, the audit opinion was that this should not be adjusted as it had been arisen from a difference in estimations rather than factual misstatements;
  - a number of amendments to the reporting of Private Finance Initiative (PFI) transactions were made by 2009 Statement of Recommended Practice (SORP) to bring it in line with International Financial Reporting Standards (IFRS). The Council were now required to include on the balance sheet PFI properties and services along with any financial liability for PFI operators that were in existence from 31 March 2009. Auditors had made a number of control recommendations and proposed that the number of costs be adjusted to meet Financial Reporting Standard 15 (FRS15 – Tangible Fixed Assets) asset recognition of criteria;

- detailed guidance on accounting for local taxes in the balance sheet had been introduced by SORP 2009. Auditors were confident that accounting entries in the 31 March 2010 statement of accounts for local taxes met the requirements of SORP 2009;
- benefit fraud was a key area where the risk was significant. Auditors had tested the operational effectiveness of existing fraud detection controls that the Council had in place and no issues had been identified.

An outline of the auditors report on the Pension Fund was provided. The Committee were advised that:

- there were three key areas of audit risk in relation to:
  - the calculation of benefits as a result of changes introduced at the start of 2008 financial year. As this largely depended on how retirement benefits were paid to the individual, a general policy could not be considered for implementation;
  - the valuation of private equity investments and derivative financial instruments as these were often based on the judgement of individual fund managers;
  - the payment of pension fund contributions to the general bank account. Officers had agreed with the auditors recommendation to have a separate bank account for the Pension Fund. It was understood that this would be established and operational from 31 March 2011.
- The Statement of Investment Principles (SIP) had been revised during the current financial year. Following these revisions, auditors had recommended that the Pension Fund's SIP be updated to include control ranges. An additional recommendation was for the Pension Fund Investment Panel (PFIP) to monitor actual asset allocations against the agreed investment strategy and take appropriate action where necessary;
- it was recommended that the PFIP perform due diligence on investment manager internal control reports to monitor any deficiencies within the Fund.

In response to questions, the Committee were advised that following the auditors recommendations in relation to the Pension Fund, officers would discuss the impact of guidance issued by the Audit and Assurance Faculty of the Institute of Chartered Accountants in England and Wales (AAF 01/06) with each fund manager and prepare a report for discussion at a future PFIP meeting.

Whilst concluding both reports, the Committee were advised that the audit was near completion and that the auditors were awaiting a letter of representation from the Corporate Director of Finance. They added that, the

1 October 2010 deadline for signing off the accounts should be met subject to a satisfactorily conclusive outcome to the discussion on the capital accounting matter referred to previously.

The Chairman thanked the Auditors and Finance officers for their efforts and invaluable work in meeting the deadline for signing off the Council's accounts. The Corporate Director of Finance extended her gratitude to the work of the Treasury and the Pension Fund Business Partner, the accounting team and the Auditors for their support. In support of the comments made, the Senior Auditor for Deloitte LLP extended his appreciation to the collaborative effort of officers and the auditors.

**RESOLVED:** That

- (1) the changes to the Statement of Accounts 2009/10 be noted;
- (2) the report of the External Auditor for both Harrow and the Pension Fund be considered;
- (3) the accounts for 2009/10 be approved;
- (4) the Pension Fund Annual Report of 2009/10 be noted.

**38. INFORMATION REPORT - Governance Audit and Risk Management Committee Annual Work Programme 2010/11**

A report that set out the anticipated core annual work programme for the Committee was presented. An officer advised that:

- the report had been prepared following a request at the 29 June 2010 meeting of the Committee;
- the annual work programme had been drafted following agreement of the wider Terms of Reference at the GARM Committee meeting on 8 April 2010;
- following a Member request, an Insurance report would be added to the existing work programme for presentation at the March GARM Committee meeting each year.

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

(Note: The meeting, having commenced at 7.30 pm, closed at 8.20 pm).

(Signed) COUNCILLOR JOHN COWAN  
Chairman