

# GOVERNANCE, AUDIT AND RISK MANAGEMENT COMMITTEE MINUTES

## 21 SEPTEMBER 2011

**Chairman:** \* Councillor Sachin Shah

**Councillors:** \* Sue Anderson  
\* Thaya Idaikkadar \* Chris Mote  
\* Krishna James (4) \* Richard Romain  
\* Yogesh Teli

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

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

### 114. Attendance by Reserve Members

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

Ordinary Member

Reserve Member

Councillor Mano Dharmarajah

Councillor Krishna James

### 115. Declarations of Interest

**RESOLVED:** To note that the following interests were declared:

Agenda Item 9 – Final Accounts

Councillor Sue Anderson declared a personal interest in that she was employed by Her Majesty's Revenue and Customs (HMRC). She would remain in the room whilst the matter was considered and voted upon.

## **116. Minutes**

Members noted that the minutes of the meeting were circulated on a main agenda due to the close proximity of this meeting. The Committee agreed to receive the minutes as an urgent item for the reasons stated on the supplemental agenda.

**RESOLVED:** That the minutes of the meeting held on 6 September 2011, be taken as read and signed as a correct record.

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

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

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

None received.

## **RESOLVED ITEMS**

## **119. Bribery Act**

The Committee received a report of the Director of Legal and Governance Services that outlined the main provisions of the Bribery Act 2010 and the steps that officers had identified would be necessary for its implementation within the Council.

An officer reported that:

- the Bribery Act 2010 came into force on 1 July 2011 and replaced, updated and extended the existing laws against corruption;
- the Act created four new offences, including:
- offences of Bribing another Person (Section 1) occurred where an individual was offered, promised or given financial reward (or been led to believe) and it induced them to perform an improper function or act;
- failure of Commercial Organisation to prevent bribery (Section 7) occurred when a commercial organisation failed to prevent a bribe being paid for or on its behalf. In general, a commercial organisation would not include a public body, however, the Council may have subsidiaries which could fall within the scope of the Act or conduct its affairs in a manner akin to a private business. The Council had considered the guidance published by the Ministry of Justice on Section 7 of the Act when implementing and updating procedures to prevent bribery.

In response to questions from the Committee, the officer advised that bona fide hospitality that sought to improve the image of a commercial organisation would not be prohibited as long as it was proportionate in accordance with the guidance.

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

## **120. Final Accounts**

The Committee agreed to receive a report on the Final Accounts as an urgent item for the reasons stated on the supplemental agenda. The Committee received a report of the Interim Director of Finance which set out the Council's audited Statement of Accounts for 2010/11. An officer reported that:

- the 2010/11 accounts had been prepared in full accordance with the International Financial Standards (IFRS) for the first time. Officers were required to ensure that account balances for 2009/10 and 2008/09 were restated in accordance with the Statement of Recommended Practice (SORP);
- the production and approval of the accounts was an important process as it enabled stakeholders to review the Council's financial position for the year ended 31 March 2011;
- the draft statement of accounts was signed by the Interim Director of Finance in her capacity as the Chief Financial Officer on 30 June 2011. The external audit of the accounts had begun on 4 July 2011. Members of the Committee had met with the External Auditors, Deloitte LLP, before the Governance, Audit and Risk Management (GARM) Committee meeting on 6 September 2011 when the draft final accounts had been considered. A pre-meeting briefing on the final accounts also took place and Senior Officers within the Finance Team had had the opportunity to respond to Members queries in relation to the content of the draft accounts. The Council was on target for signing off the accounts by the statutory deadline of 30 September 2011 as required by the Accounts and Audit Regulations 2011.

Representatives from Deloitte LLP, advised the Committee that:

- the process for preparing the Final Accounts had gone smoothly and the transition to the IFRS had been undertaken with due care. There were fewer matters arising than in previous years. Some minor areas that had been highlighted had been noted and corrected;
- the Council's valuation of the pension scheme liabilities was reasonable;
- the Auditors were comfortable with the approach and assumptions made in relation to the Council's property valuations;

- the Auditors had recognised some minor errors in the Council's presumed risk of fraud in relation to revenue recognition. These had been addressed by Management and the Auditors were satisfied with the approach taken;
- following amendments to auditing standards which were highlighted by the auditors, no significant weaknesses in relation to the control environment had been identified. Nevertheless, to enhance existing processes, the Auditors had made recommendations that would improve the Council's control environment;
- ongoing improvements to the control environment and the testing of in-year capital transactions undertaken by the Directorates and evaluated by Internal Audit had been reviewed. The external Auditors were satisfied that the matter had been effectively addressed and mis-coding within the accounts had not occurred;
- the external Auditors procedures for the Whole of Government Accounts was ongoing. It was anticipated that the audited return on the Council's accounts would be returned by 30 September 2011;
- there was an unadjusted misstatement in relation to a potential over-provision against debtors. Management had concluded that the total impact of the uncorrected misstatements, both individually and in aggregate was not material to the context on the financial statements taken as a whole;
- based on the criteria specified by the Audit Commission and the work completed so far, it was expected that an unqualified Value For Money (VFM) conclusion would be issued;
- the certificate of accounts had not been signed off for the past two years as there was an unresolved matter in relation to a formal objection regarding credit card charges incurred as a result of payments for parking fines. It was anticipated that the matter would be resolved following the judgement in a similar case with Camden Council. The external Auditors were unable to formally certify the 2008/09 and 2009/10 accounts until this objection was resolved.

In relation to the pension fund annual report, a representative from Deloitte LLP advised that:

- calculations of pension fund contributions and benefits for the multiple bodies that were part of the fund had been successful. All testing completed by the Deloitte LLP had produced satisfactory results;
- private equity investments were not in line with the Statement of Investment Principles. However, there were no issues in relation to the review of existing private equity investments;

- the note to the financial statements in relation to the actuarial liability within the scheme as at 31 March 2011 complied with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2010/11;
- all testing in relation to management override of controls under ISA 240 had been completed with satisfactory results;
- there were two areas for improvement in relation to accounting control systems, which related to the requirement for a separate pension fund bank account and non-compliance with the Statement of Investment Principles (SIP). Nevertheless, there were no identified misstatements in relation to the pension fund annual report for 2010/11.

Officers and representatives from Deloitte LLP responded to questions raised by Members as follows:

- property valuations within the accounts were valued in accordance with the indices provided by the Land Registry. Officers were encouraged to use the most up-to-date valuations when preparing the accounts. In these circumstances, officers and the external auditors had agreed that 1 September 2011 would form the basis for the 2010/11 accounts valuations;
- Members were encouraged to keep abreast of economic developments within the Eurozone which could have a direct and indirect on the pension fund;
- a bank account for the pension scheme had been established, however, transactions and receipts were processed in the Council's bank account. Changes to the existing IT system throughout the Council would be needed to enable these transactions to take place within the pension fund account;
- the SIP had not been agreed by the Pension Fund Investment Panel (PFIP) in the previous accounting year. Existing ranges that were in place were monitored regularly by officers.

Members of the Committee thanked officers within the Finance team for their hard work and efforts in preparing the accounts in accordance with the IFRS. The Committee also noted the positive working relationship between officers and representatives from Deloitte LLP, the external Auditors. A representative from Deloitte LLP also congratulated finance officers for their efforts in preparing the 2010/11 accounts.

**RESOLVED:** That

- (1) the report of the External Auditor for both Harrow and the Pension Fund be noted;

- (2) the Accounts for 2010/11 be approved:
- (3) the Pension Fund Annual Report of 2010/11 be noted.

## **121. INFORMATION REPORT - Council Insurance Arrangements**

An officer presented a report of the Assistant Chief Executive which set out the Council's current insurance arrangements, including self-funding, and provided information on the main insurable risks faced by the Council.

The officer outlined key information contained in the report and advised the Committee that:

- the insurance service comprised a team of four officers, who sought to deliver an efficient, economic and high quality service that met customers needs, corporate priorities and statutory requirements;
- the main aims and areas of responsibility of the service included providing a comprehensive insurance and claims handling service to internal and external customers, as well as advising the Council on all insurance matters. Officers within the insurance team worked in partnership with all departments to manage and reduce the council's exposure to insurable risk;
- all claims against the Council were managed by the council's in-house team with the exception of personal injury claims, which were handled by external claims handlers, Cunningham Lindsey;
- Harrow Council was a member of the Insurance London Consortium (ILC). The ILC was established in 2009 following the demise of the London Authorities Mutual Ltd that was comprised of nine London Boroughs. The purpose of the consortium was to reduce costs by combining purchasing power and making best practice improvements to internal systems that would enhance efficiencies. Membership of the consortium had delivered savings on insurance premiums in 2011/12 of £110,000 for the Council. In addition to the financial savings, consortium members also benefited from enhanced policy cover which was specifically tailored to the requirements of the ILC and embarked upon a number of initiatives to manage and reduce insurable risk;
- most of the Council's external insurance policies were subject to large policy excesses. The level of excess was set on a prudent basis in line with similar local authorities and recognised best practice. Claims that fell within the policy excesses were met from the Council's insurance provisions and were handled on similar terms and conditions as external policies. The Council's maximum financial liability under each class of business was capped by an annual stop loss aggregate which outlined a maximum exposure level in any one policy year;

- the Council's insurance provisions were subject to an independent actuarial review, which took place every three years. A mini-review had been due in 2009 and as at 31 March 2010, the fund was deemed to be adequate at £5.1 million;
- the total number of claims against the Council had peaked in the 2006/07 policy year. Claim numbers had fallen and had remained static since the 2007/08 policy year. This correlated with a fall in the total number of payments made from the Council's funds which fell from £1.83 million in 2009/10 to £1.08 million on 2010/11;
- public liability claims accounted for 49% of all claims received. 13% of these claims relate to tree subsidence (for privately owned properties) which was 44% of insurance payments made by the Council. Nevertheless, the majority of claims made against the Council were successfully repudiated.

Members thanked the officer for the comprehensive report.

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

## **122. Any Other Urgent Business**

### Lead Member Update

This item was considered to be urgent to provide Members with an update on the nominations and appointment of Lead Members for the GARM Committee.

An officer reported that nominations had been received for some service areas. Members were invited to volunteer as a Lead Member for each of Corporate Governance, Risk Management, Internal Audit, Insurance and General Finance. He added that a follow up letter would be sent to all Members and Reserves of the GARM Committee towards the end of the month.

### Vote of Thanks

The Chairman advised that this was potentially the last meeting of the Clerk to the Committee as she had been offered a new role in the Legal Practice Team. Members and officers present thanked her for all the work and support that she had provided to the Committee over the past two years and wished her all the best in her future career.

(Note: The meeting, having commenced at 7.32 pm, closed at 8.50 pm).

(Signed) COUNCILLOR SACHIN SHAH  
Chairman