

# GOVERNANCE, AUDIT AND RISK MANAGEMENT COMMITTEE MINUTES

## 29 MARCH 2012

**Chairman:** \* Councillor Sachin Shah

**Councillors:** \* Sue Anderson \* Krishna Suresh (3)  
\* Thaya Idaikkadar \* Yogesh Teli  
† Chris Mote \* Stephen Wright (2)

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

### 147. Attendance by Reserve Members

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

Ordinary Member

Councillor Mano Dharmarajah  
Councillor Richard Romain

Reserve Member

Councillor Krishna Suresh  
Councillor Stephen Wright

### 148. Declarations of Interest

**RESOLVED:** To note that the following interest was declared:

General

Councillor Thaya Idaikkadar, in his capacity as Portfolio Holder for Property and Major Contracts, declared a personal interest in that some of the reports made reference to properties. He would remain in the room whilst the matters were considered and voted upon.

#### **149. Minutes**

**RESOLVED:** That the minutes of the meeting held on 26 January 2012, be taken as read and signed as a correct record.

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

**RESOLVED:** To note that no petitions were received, questions put or deputations received under the provisions of Committee Procedure Rules 17, 15 and 16.

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

None received.

### **RESOLVED ITEMS**

#### **152. INFORMATION REPORT - Audit Opinion Plan 2011/12**

The Committee received a report of the Corporate Director Resources on the Accounts Audit Opinion Plan 2011/12 and the Pension Fund Annual Report Audit Plan 2011/12. The purpose of the report was to keep Members informed of current issues in relation to the Audit of the Council's accounts.

The Chairman welcomed Anna Parker, Audit Senior Manager; Matthew Hall, Audit Director; and David Hobson, Pension Senior Manager, from Deloitte LLP to the meeting.

David Hobson, Deloitte, referred to the Audit Plan for the 2011/12 Pension Fund Annual Report Audit and outlined the key areas of the audit scope, including the key audit risks, as follows: calculation and payment of contributions, benefits payable and investments made, details of which were set out in the report. He responded to questions relating to the formulae applied in estimating Planning Materiality, which was calculated on the basis of the net assets of the Fund and clarified that the guidance issued by the Audit Commission required auditors to treat the Local Government Pension Fund (LGPS) as a stand-alone body, but the Pension Fund Accounts remained part of the accounts of the Authority as a whole.

In relation to the Financial Instruments, Members were informed that the Pension Fund made some use of investments in private equity and derivative financial instruments. In terms of the risks associated, both types of investments were considered to be complex and would be examined in detail.

Anna Parker from Deloitte identified the key audit risks, as follows:

- valuation of properties, which was judgemental – a review of the arrangements in place for updating market values, including an assessment of their compliance with the new Code of Practice, would be carried out;

- pension liability - consideration of the qualifications, relevant expertise and independence of the actuary engaged by the Council and the instructions and sources of information provided to the actuary would be conducted;
- management override of controls – work on testing of journals, significant accounting estimates and any unusual transactions, including those with related parties would be examined;
- capital miscoding – testing around the design and implementation of the new controls to confirm that previous control weaknesses had been addressed would be performed. It was essential that previous year’s mistakes were not repeated and evidence would be sought that standards agreed had been implemented and were operating effectively;
- revenue recognition – recognition that income properly reflected the grant scheme rules would be tested.

A discussion ensued around the mis-statement of £695k. The Corporate Director Resources reminded the Committee that the Auditor had reported that the bad debt had been overstated in last year’s accounts. The Corporate Director stated that it was a matter of judgement rather than a perceived error and she was satisfied with the provision and no adjustment was made. The bad debt policy would be reviewed prior to finalising the 2011/12 Financial Statements. A Member was of the view that he could not support the opinion that this was a misstatement and agreed that prudence was desirable.

The Committee was briefed on the report of the Audit Committee on the year ending 31 March 2011 Certification Work, including the qualification letters issued.

**RESOLVED:** That

- (1) the 2011/12 Accounts Audit Opinion Plan and Pension Fund Annual Report Audit Plan be noted;
- (2) the Grants Certification Report for 2010/11 be noted.

### **153. INFORMATION REPORT - Risk Management Update**

The Committee received an information report of the Assistant Chief Executive, as part of its support role of reviewing internal policies and arrangements. The report set out the progress made in risk management, whilst ensuring that the Council’s Risk Management Framework continued to align with best practice, including the production of an annual Risk Appetite Statement on behalf of the Council in line with best practice in Corporate Governance, and ensuring that risk information and reporting processes were streamlined and effective.

An additional appendix 4 was circulated separately to provide a sample of a Directorate Statement of Risk Appetite to be considered in the context of the overall report.

An officer provided some background to the report in that the Council's updated Risk Strategy provided for the merging of the former Strategic Risk and Corporate Operational Risk Registers into a single corporate Risk Register. In order to enhance the work of the GARMC and Cabinet around risk management, the following suggestions were made by the officer:

- introduction of workshops for Cabinet with a view to ensuring greater engagement and awareness;
- revisiting and refreshing the corporate governance framework of the Council – examining existing arrangements, profile, standing within the organisation which would help the Council to take risks in a managed way;
- promoting the commercialisation agenda at the Council as a means of improving officers' risk taking skills.

It was important that risk management was embedded within the organisation, particularly as the organisation was evolving due to the changing economic climate and changes in its structure and operational role, for example an increase in its commissioning role in areas that were formerly NHS driven. It was also essential that risk management was particularly embedded at service level and in the financial planning process. Moreover, whilst the Council was risk averse in the delivery of front line services, the back office functions were exposed to greater risks.

In response to questions from Members, it was noted that:

- the Council had an overall informed cautious appetite for taking significant risks but it was important to note that risk appetite was a complex and composite attitude often dependant on where Directorates were in their business and service cycles, on the personal subjective judgement core to strategic decision-making and also on the personality and the leadership-style of senior managers involved;
- appetite scoring was qualitative and dependant on the subjective judgement of the risk.

The Assistant Chief Executive explained aspects of the Council's Corporate Risk Register, including the impact of various threat risks, aspects of which had been scored in the context of the changes that the Council was facing such as the proposed consultation with staff on their terms and conditions and future industrial relations. The scoring had been set in the context of the risks that the Council would tolerate. Risks which continued to be high profile were driving the Corporate Strategy Board (CSB) agenda. Moreover, discussions with the relevant Directorate were carried out on a continuous basis by the Interim Risk Manager, particularly in relation to the spending pressures, and

ongoing strategic risks were monitored. In relation to Corporate Governance, there were checks and balances on the different stakeholders within the Council. Discussions were also taking place on how Corporate Governance within the different Directorates could be enhanced and made more robust. A mix of resources and organisational presence were essential ingredients to promoting good corporate governance.

A Councillor commented that the role of corporate governance was to provide a check and balance on the organisation whilst not hindering its operation.

The Chairman referred to the discussion around governance and invited Members to send him comments and suggestions on how best the Committee could engage with the rest of the Council, particularly Cabinet, and the report of the FRC would assist in this regard.

**RESOLVED:** That

- (1) the report be noted;
- (2) the report of the FRC titled 'Boards and Risk – A summary of discussions with companies, investors and advisers' be circulated to all Members of the Committee;
- (3) the Corporate Risk Register be made available to the Chairman.

#### **154. INFORMATION REPORT - Insurance Risks**

An officer introduced the report, which provided information on the Council's current insurance arrangements, including self-funding and fund performance, and outlined the main insurable risk exposures faced by the Council.

The officer outlined the Council's main exposures in terms of insurable risk, such as tree related subsidence and highways. In relation to highways, the costs associated with the maintenance of highways were high. However, any drop in the maintenance budget might result in an increase in successful claims. A claims analysis had been undertaken to assess whether any locations within the borough were more likely to generate claims, however no specific trends were identified.

In relation to tree related subsidence, the officer was working on a project across Directorates to reduce the cost of claims against the Council whilst recognising the Council's wish to keep neighbourhoods green and invited Members to report cases and issues to her. Currently, there were three potential claims and this was considered to be high. GIS mapping had been carried out to identify hotspots. Harrow was a leafy borough but a sensible balance needed to be struck when planting trees.

In response to questions from Members, officers stated that motor vehicle claims accounted for 41% of all claims received. Work was ongoing with other Consortium members to share best practice with a view to reducing the cost of claims against the Council.

The Chairman stated that it was essential that policies were developed that would help the Council to reduce its costs whilst not having a detrimental impact on the provision of frontline services. He asked for regular reports to be presented to the Committee updating Members of the developments in this area.

**RESOLVED:** That the report be noted and regular updates be provided to the Committee.

#### **155. Draft Internal Audit Plan 2012/13**

The Committee received a joint report of the Assistant Chief Executive and Corporate Director Resources, setting out the draft Internal Audit Plan for 2012/13. It was noted that the CIPFA Code of Practice for Internal Audit required the Committee to approve, but not direct, the Internal Audit Plan. Members also noted that a top down approach had been adopted for the development of the Audit Plan, as recommended by CIPFA.

An officer informed Members that the Corporate Strategy Board and the external Auditors had been involved on the preparation of the draft Plan and that a number of internal and external reviews were underway as a result of which the document might be modified. In response to questions from Members, the officer added that major contracts were audited and briefed the Committee of those that had already been audited and were planned.

Members were informed that each area of the draft Plan would be risk assessed and ranked. Efforts would be concentrated on higher risks and a final Plan would be presented at the next meeting. Flexibility would be retained for emerging risks.

**RESOLVED:** That

- (1) the process employed to develop the draft Internal Audit Plan be noted;
- (2) it be noted that the final Plan would be submitted to the Committee in June 2012.

#### **156. INFORMATION REPORT - Future Appointment of External Auditors**

The Committee received a joint report of the Assistant Chief Executive and Corporate Director Resources, setting out the Audit Commission's Strategy for making auditor appointments for 2012/13 and future years and the process for audited bodies to object to a proposed auditor appointment. It was noted that, in August 2010, the Secretary of State for Communities and Local Government announced plans to disband the Audit Commission and to allow local public bodies to appoint their own auditors. At the same time, the Secretary of State indicated his intention to transfer the Commission's in-house Audit Practice to the private sector and, in due course, to abolish the residual element of the Commission.

The officer explained that the Audit Commission had undertaken a procurement exercise with the objective to transfer successfully to the private sector the audit work currently delivered by the Audit Practice and to

maximise value for money. Following due process, the outcome for Harrow was that the Audit Commission would be proposing that Deloitte LLP be appointed until 2017. In response to a question about the fees, the officer replied that formal proposals would become evident during April, however it was not for the Council to negotiate on the contract or fees charged.

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

#### **157. Any Other Urgent Business**

##### Annual Audit Letter and Financial Statements

The Corporate Director Resources referred to a discussion at the previous meeting in relation to an objection received in respect of the Council's Financial Statements. She expected the objection to be resolved soon, and would present a report to the Committee in due course.

This matter was considered to be urgent, as Members needed to be briefed of the situation as the next meeting of the Committee was not until June 2012.

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

#### **158. Exclusion of Press and Public**

**RESOLVED:** 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 item(s) for the reasons set out below:

<u>Item</u>	<u>Title</u>	<u>Reason</u>
15.	Information Report – Insurance Risks – Appendix 2	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).

#### **159. INFORMATION REPORT - Insurance Risks**

The Committee received confidential appendix 2 to the report of the Assistant Chief Executive setting out an independent actuarial review in relation to the Council's insurance fund.

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

(Note: The meeting, having commenced at 7.31 pm, closed at 8.58 pm).

(Signed) COUNCILLOR SACHIN SHAH  
Chairman