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MEETING	AUDIT & GOVERNANCE COMMITTEE
DATE	4 OCTOBER 2006
PRESENT	COUNCILLORS HYMAN (in the Chair for Agenda items 1-5 and 11), HOLVEY (in the Chair for Agenda items 6-10), HILL, MOORE, SCOTT, B WATSON (substituting for Councillor Jones) and R WATSON
APOLOGIES	COUNCILLOR JONES

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## **PART A - MATTERS DEALT WITH UNDER DELEGATED POWERS**

### **25. DECLARATIONS OF INTEREST**

Members were invited to declare at this point any personal or prejudicial interests they might have in the business on the agenda. Councillors R Watson and Scott each declared a personal, non prejudicial interest in Agenda item 11 (Annual Monitoring Report: Breaches and Waivers of Financial Regulations 2005/06), as members of the legal profession.

### **26. PUBLIC PARTICIPATION**

It was reported that there had been no registrations to speak at the meeting under the Council's Public Participation Scheme.

### **27. EXCLUSION OF PRESS AND PUBLIC**

RESOLVED: That the press and public be excluded from the meeting during consideration of annexes 1,2 and 3 to agenda item 11 (Annual Monitoring Report: Breaches and Waivers of Financial Regulations 2005/2006), on the grounds that they contain information relating to financial and business affairs, which is classed as exempt under paragraph 3 of Schedule 12A to Section 100A of the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) Order 2006.

### **28. FOLLOW UP REVIEW OF IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS (OCTOBER 2005 - MARCH 2006)**

Members considered a report which set out progress made by departments in implementing the recommendations made in final internal audit reports issued between October 2005 and March 2006.

A total of 246 recommendations had been followed up, of which 10 had been superseded and 211 (86%) had been satisfactorily implemented. Additional recommendations had been raised to address ongoing weaknesses in two of these cases and these would be followed up in a later review. In 25 cases, the recommendations had not been fully

implemented. These had been referred back to the service manager or assistant director, in accordance with the escalation policy. Overall, good progress had been made and there were no specific issues to bring to the Committee's attention.

It was proposed that those outstanding recommendations for which a revised deadline had been agreed should be escalated immediately to the next level in the process if they had still not been completed by the revised deadline. Approval was sought to amend the escalation process agreed in June to reflect this approach. A copy of that process was circulated to Members for information. It was noted that the S151 Officer and Chief Executive now had powers to take action should an issue be referred to them under Stage 6 of the process.

RESOLVED: (i) That the progress made in implementing the audit recommendations, as reported in paragraphs 5-10, be noted.

REASON: In accordance with Members' role in providing independent assurance on the Council's control environment.

(ii) That the proposed amendment to the escalation process, set out in paragraph 12 of the report, be noted and agreed.

REASON: To enable Members to monitor the work of the Audit and Fraud team effectively, and ensure that outstanding audit recommendations are addressed to reduce unacceptable risks to the Council.

## **29. MONEY LAUNDERING**

Members considered a report which summarised legislative requirements and interim guidance for the prevention and detection of money laundering and proposed arrangements to minimise the risk to the Council of money laundering.

The relevant legislation comprised the Proceeds of Crime Act (POCA), section 18 of the Terrorism Act 2000 and the Money Laundering Regulations 2003 (the Regulations). The POCA defined money laundering and set out the obligations on organisations and individuals to report known or suspected money laundering activities. The Terrorism Act set out similar obligations in relation to activities associated with terrorism. The Regulations covered the measures which must be put in place to restrict the opportunities for money laundering in organisations which conducted "relevant business". Interim guidance had been issued by the Chartered Institute for Public Finance and Accountancy (CIPFA) in 2005. This confirmed that the general provisions and offences in the POCA applied to all public service organisations and recommended that all public bodies put in place anti money laundering policies, procedures and reporting arrangements appropriate and proportionate to their activities.

In the light of the guidance, it was proposed that a detailed Action Plan be developed, to strengthen the Council's existing counter fraud

arrangements, and brought to the Committee on 31 January 2007. The Plan would include an update of existing policies and strategies, training and guidance for staff likely to be exposed to money laundering activities and nomination of a Money Laundering Reporting Officer responsible for reporting concerns to the Serious Organised Crime Agency.

RESOLVED: (i) That the legislative requirements necessary to prevent and detect money laundering and the associated guidance issued by CIPFA be noted.

REASON: To ensure that the Council complies with relevant legislation.

(ii) That an anti money laundering Action Plan be brought to the January 2007 meeting of the Committee.

REASON: To ensure that the Council has in place adequate arrangements to prevent, detect and, where necessary, report on suspected money laundering activities.

**30. THE ROLE OF AUDIT AND GOVERNANCE COMMITTEE IN MONITORING THE IMPLEMENTATION OF THE FRAUD AND CORRUPTION PROSECUTION POLICY**

Members considered a report which advised them of the Committee's role in monitoring the implementation of the Council's Fraud and Corruption Prosecution Policy.

A copy of the revised Prosecution Policy, approved by the Executive Member for Corporate Services on 12 September 2006 and effective from 1 October, was attached as Annex A to the report. It was proposed that details of decisions taken under the Policy, and outcomes where known, be reported to the Committee twice a year as part of the Fraud mid-term monitor in January and the Annual Report of the Chief Internal Auditor in June. This would enable Members to ensure that the policy was being fully adhered to, remained effective and complied with relevant legislation and best practice.

RESOLVED: That the proposed monitoring arrangements for the Prosecution Policy be noted and approved.

REASON: To ensure that the Prosecution Policy remains effective and is adhered to.

**31. THE ROLE OF AUDIT AND GOVERNANCE COMMITTEE IN MANAGING AND MONITORING THE IMPLEMENTATION OF RISK MANAGEMENT**

Members considered a report which advised them of the Committee's role in managing and monitoring the process of embedding corporate risk management arrangements at the Council.

Part of the Committee's stated purpose was to "provide independent assurance of the adequacy of the [Council's] risk management framework".

The basis for risk management was set out in Regulation 4 of the Accounts and Audit Regulations 2003. The attributes required to ensure an effective risk management framework were contained in the CIPFA/ALARM publication Risk Management in Public Services and listed in Annex 1 to the report. These attributes were reflected in the Key Lines of Enquiry (KLOE) relating to risk management. The risk and insurance team was making good progress in meeting the requirements of the KLOEs forming part of this year's CPA 'refresh' exercise. A full list of the KLOEs and the Council's comments and actions was attached as Annex 2. The team had also made progress in developing a robust and effective framework to facilitate the embedding of a risk management culture across the Council, although there were some development issues.

The report noted that the Committee's role in relation to the development agenda, the CPA KLOEs and the risk management framework was to monitor progress. It suggested that this role be facilitated by providing a mid-term monitoring report and an out-turn report highlighting achievements, progress and any other areas of constraint. Paragraph 16 of the current report summarised progress made by each directorate in embedding risk into their culture and process. Future monitoring reports would provide details of actions being taken by directorates to identify, manage and mitigate key risks as well as highlighting any gaps in the process across the Council.

RESOLVED: (i) That the contents of the report be noted.

REASON: To be aware of the progress made to date in respect of the risk management of the Council and of the further work now needed to support the effective development of the Council's approach in the future.

(ii) That the proposed role for the Committee, as set out in paragraph 14 of the report (to monitor progress), be approved.

REASON: To clarify the role and purpose of the Committee in relation to the delivery of risk management at the Council.

(iii) That the Committee receive mid-term monitoring and out-turn reports, as suggested in paragraph 15, which will include details on progress against CPA criteria and the Development Plan.

REASON: To ensure that Members can fulfil their role in monitoring the progress made by the Risk and Insurance team against the CPA criteria and the development agenda.

(iv) That the Committee monitor the progress made by directorates in deploying risk management arrangements, as outlined in paragraph 19.

REASON: To ensure that Members can fulfil their role in monitoring the progress made by directorates in considering, managing and embedding risk management into their services.

### **32. STRATEGIC AUDIT PLAN - CONSULTATION**

Members considered a report which invited them to contribute to the annual review and update of the Council's internal audit risk assessment and five year strategic audit plan.

A copy of the latest Strategic Audit Plan was attached as Annex B to the report. Details of the criteria used by internal audit to assess and score each risk factor within the Plan were attached as Annex A. The report outlined the existing risk assessment methodology, which had last been reviewed as part of the project to implement the Galileo Audit and Risk Management software in January 2006. It was noted that the current shortfall in audit resources meant that many 'medium' or 'low' risk audit areas were not being reviewed as often as required. Members were invited to comment on the adequacy of the methodology, the accuracy of the risk assessment process and whether any changes or additions should be made to the Plan.

Members commented on the criteria for scoring and prioritising risks within the Plan. It was noted that high-value transactions did not always attract the highest score, because other relevant factors such as the volume of business and level of control might lower the risk. However, PFI agreements were variable in terms of risk and must be reviewed on a case by case basis. It was suggested that high volume cash transactions were potentially a high risk area which might require tighter audit controls.

RESOLVED: (i) That the existing audit risk assessment and planning process be noted and that Officers be asked to consider the points raised by Members during their discussion.

REASON: For information and to ensure that scarce audit resources are used effectively.

### **33. AUDIT COMMISSION REPORT : ARRANGEMENTS FOR THE DISPOSAL OF THE BARBICAN**

Members received a report which presented the findings of the Audit Commission's review of the Council's arrangements for the disposal of the Barbican.

A representative of the Audit Commission had attended to answer Members' questions on the report. However, due to pressure of time he had to leave the meeting before discussion on this item could begin.

RESOLVED: That this item be deferred for consideration at a special meeting of the Audit and Governance Committee, the date of which shall be arranged in consultation with the Chair, Vice-Chair and the District Auditor.

REASON: To enable the District Auditor to attend the meeting so that Members can properly consider the report.

**34. ANNUAL MONITORING REPORT: BREACHES AND WAIVERS OF FINANCIAL REGULATIONS 2005/2006.**

Members considered a report which informed them of unauthorised breaches of the Council's Financial Regulations during the 2005/06 financial year and any waivers of Financial Regulations approved by the Section 151 Officer during the year. It also summarised progress made in addressing breaches identified and reported in previous years.

The exempt annexes to the report detailed breaches of Financial Regulations identified in 2005/06 (Annex 1), the current status of breaches outstanding from previous years (Annex 2) and applications for waivers received in 2005/06 (Annex 3). It was noted that 13 new breaches had been reported in 2005/06, compared to 22 in 2004/05, and that departments had made good progress in addressing breaches from previous years, with action taken to deal with 23 of the 27 outstanding breaches. A total of 28 applications for waivers had been received, of which 27 had been approved and one was not required. Taken together, the figures appeared to show an increasing awareness of the requirements of the Financial Regulations and EU procurement rules, and of the need to comply with these.

Members expressed concern that a number of the unresolved breaches had been reported to Commercial Services EMAP on previous occasions and suggested that these be monitored more closely. They also commented on the implications section of the report, noting that, whilst the report itself had no legal or financial implications, the breaches potentially did. Officers agreed to provide details of the implications of individual breaches in future reports.

RESOLVED: (i) That the breaches of Financial Regulations identified, or otherwise notified to the Section 151 Officer during 2004/05, as set out in paragraph 7 and Annex 1, be noted.

(ii) That the actions taken to address outstanding breaches of Financial Regulations be noted and that Officers bring an update report to the Committee on those matters that currently remain outstanding, the date of the report to be agreed with the Chair and Vice-Chair.

(iii) That the waivers of Financial Regulations approved by the Section 151 Officer under the Council's scheme of delegation, as detailed in paragraphs 13-14 and Annex 3, be noted.

REASON: To fulfil the Committee's role in considering the Council's compliance with its own and other relevant published regulations, controls, operational standards and codes of practice.

## PART B - MATTERS REFERRED TO COUNCIL

### 35. CONSTITUTIONAL AMENDMENT

Members considered a report which gave details of a constitutional amendment proposed by the Labour Group and asked the Committee to make a suitable recommendation to Council in respect of the proposal.

The proposed amendment was to Standing Orders 8(2)(a) and 10(a), which related to questions to Executive Members and the Executive Leader respectively. It proposed inserting the sentence: "*No answer given shall exceed 2 minutes in duration*" after the words denoting a ten minute time limit for questions set out in each of the two Standing Orders.

RECOMMENDED: That Standing Orders 8(2)(a) and 10(a) be worded as follows:

**Standing Order 8(2)(a):** "The Executive Member will answer questions on any item in their written report, the time spent on this item shall not exceed 10 minutes. Such questions must relate directly to the report and be received by the Chief Executive in writing on the day before the meeting."

**Standing Order 10(a):** "A member of the Council may ask a question on the Leader's written report or ask an Executive Member a question upon any item within their portfolio when their portfolio is under consideration by the Council under Standing Order 4(c)(9). Such questions must relate directly to the report in the case of the former and in any event must be received by the Chief Executive not later than the day prior to the Council meeting. The time limit for questions on the report is 10 minutes. The Chair of Council will determine the order in which questions should be put and answered to reflect political balance, public expectation and significance to the Council."

REASON: To enable the amendment and the Committee's recommendation on it to be considered at the next Council meeting, on 5 October.

Note: Cllr Scott abstained from voting on the above recommendation and asked that this be recorded.

K Hyman, Chair

[The meeting started at 5.30 pm and finished at 7.55 pm].