

Public Accounts Select Committee Supplementary Agenda

Wednesday, 18 March 2020
7.00 pm, Committee room 1
Civic Suite
Lewisham Town Hall
London SE6 4RU

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This meeting is an open meeting and all items on the agenda may be audio recorded and/or filmed.

Part 1

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Public Accounts Select Committee

Report title: Report on the work of the Audit Panel.

Date: 18 March 2020

Key decision: Yes.

Class: Part 1

Ward(s) affected: None

Contributors: Director of Financial Services and Acting Chief Finance Officer

Outline and recommendations

The purpose of this report is to update the members of the Public Accounts Select Committee (PASC) on the work of the Audit Panel at their March, July, September and December 2019 and March 2020 meetings.

It is recommended that the PASC note this report.

Reasons for Urgency and Lateness

Lateness: The report is late to enable officers to complete the update for the full financial year, following the Audit Panel meeting of the 12 March.

Urgency: Given the significance three yearly valuation of the fund and consequential decisions in respect of employer contribution rates and on the investment strategy of the fund, it is essential that the Public Accounts Select Committee consider the recommendations in this report so the proposed changes can be implemented promptly.

Where a report is received less than 5 clear days before the date of the meeting at which the matter is being considered, then under the Local Government Act 1972 Section 100(b),(4) the Chair of the Committee can take the matter as a matter of urgency if he is satisfied that there are special circumstances requiring it to be treated as a matter of urgency. These special circumstances have to be specified in the minutes of the meeting.

1. Summary

1.1. The report sets out the topics covered by the work of the Audit Panel from March 2019 (2018/19) to March 2020 (2019/20). From these the highlights to note are:

- The changes to the Chair and Deputy Chair in June 19 following the Annual General Meeting for 2019/20;
- The preparation of the financial statements by Council officers for audit and the unqualified financial audit opinion and Value for Money conclusion;

- In addition to monitoring the work of internal audit service and the coverage of their risk based work, the Panel noted the Satisfactory annual assurance opinion of the Head of Internal Audit for 2019/20;
- The Panel also held more detailed discussions through the year, set out in more detail in this report, and agreed action on:
 - The Audit Panel's terms of reference in line with CIPFA good practice.
 - External Audit scope, cost, and timing; recognising the industry is under a lot of scrutiny at present.
 - Management timely completion of Internal Audit recommendations.
 - Market challenges to recruit Internal audit resources, in particular the need for a Head of Internal Audit.
 - OracleCloud project moving finance and HR to this system and addressing control issues highlighted by audit arising from this change.
 - The introduction of Risk Management reports as a standing item to ensure focus is given to operational challenges and opportunities.
- The Panel met and undertook its functions through the year in line with its terms of reference. It was able to do so with the invaluable support of the independent members to whom the Panel extend their thanks.

2. Recommendations

- 2.1. It is recommended that the PASC note this report

3. Policy Context

- 3.1. This report supports the council's corporate strategy in relation to Governance. The corporate strategy has seven priorities:
- **Open Lewisham** - Lewisham will be a place where diversity and cultural heritage is recognised as a strength and is celebrated.
 - **Tackling the housing crisis** - Everyone has a decent home that is secure and affordable.
 - **Giving children and young people the best start in life** - Every child has access to an outstanding and inspiring education, and is given the support they need to keep them safe, well and able to achieve their full potential.
 - **Building and inclusive local economy** - Everyone can access high-quality job opportunities, with decent pay and security in our thriving and inclusive local economy.
 - **Delivering and defending health, social care and support** - Ensuring everyone receives the health, mental health, social care and support services they need.
 - **Making Lewisham greener** - Everyone enjoys our green spaces, and benefits from a healthy environment as we work to protect and improve our local environment.
 - **Building safer communities** - Every resident feels safe and secure living here as we work together towards a borough free from the fear of crime.

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4. Background

- 4.1. Under the Terms of Reference (ToR) in the Council's Constitution as at March 2020, the Audit Panel is required to report to the Public Accounts Select Committee (PASC) where appropriate. However, during 2019/20 a referral was made to M&C to review the terms of reference of the Panel to enable it to operate as a Committee. This work will be completed in 2020/21.
- 4.2. Audit Panel review and advise the Council on the Internal Audit function, control environment, External Audit and the Council's accounts, Risk and Anti-Fraud policies and procedures.
- 4.3. PASC are required to scrutinise the effectiveness of the Audit Panel.
- 4.4. The link below takes you to the Council's constitution, which contains the Terms of reference for both Audit Panel and PASC.

[The Council's constitution page](#)

5. External Audit and the Council's Final Accounts

- 5.1. The final accounts and external audit work follows a regular cycle throughout the year. This covers accounts planning and interim audit work in the late Winter and early Spring, preparation of the draft final accounts in Spring, with the accounts audit work, audit findings, recommendations and opinion to be completed by the end of July, and the Whole of Government Accounts certification and grants certification work in the Autumn.
- 5.2. The following paragraphs briefly outline the reports and findings reported to each Audit Panel meeting in the year. The Council's appointed external auditors are Grant Thornton.

March 2019

- 5.3. At this meeting Grant Thornton introduced their external audit plans and audit progress report for 2018/19. Also included were the housing benefit certification letter 2017/18; the Value for Money (VFM) report 2017/18; and the annual audit letter 2017/18.
- 5.4. Three key issues were identified in the VFM report: budget management; savings plan; and transformation arrangements. There were governance weaknesses in respect of the transformation programme, and therefore the VFM opinion was qualified in this respect and high level recommendations were raised to support the Council's improvement plans. The appointment and departure of the former Chief Executive in 2018 was a new issue and a recommendation was raised for Members to reflect upon the outcome to inform future appointments. This issue was discussed in further detail at the meeting.

July 2019

- 5.5. The Panel received and noted the Pre-Audit Statement of Accounts and Annual Governance Statement. The Panel noted that the Authority would not meet the 31 July 2019 reporting deadline and that concerns were raised in respect of the quality of financial reporting. One reason for this was under-resourcing in the Finance Division. The Panel recommended that the Public Accounts Committee give consideration to the level of resourcing in the team with a view to increase the resources available.

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- 5.6. Grant Thornton presented their audit draft findings reports. Because of the delay mentioned above, the completed audit report would be presented at the September meeting, to go to the subsequent 2 October Council meeting. The work on the Value for Money report was mostly complete. OfSted had notified LBL and Grant Thornton of the inspection taking place, regarding which Grant Thornton would report of their findings in September. The Council's transformation arrangement was performing well in rectifying oversights. The overall design was good and Grant Thornton were happy with the Council's response to issues raised last year. Audit work on the Pension Fund was almost complete. The Pension Fund Accounts were of good quality and there were no areas of particular concern.

September 2019

- 5.7. Grant Thornton presented their audit findings reports on the Main Accounts and the Pension Fund Accounts – these reports had been updated since the July version. The final set of Accounts, as at September 2019, was also provided to the Panel. A fuller response to the audit action plan was received from officers, which would be reflected in the audit letter at the close of the audit. Members requested that some reassurance should be given to the Panel of the capability to deal with the issues arising from the action plan.
- 5.8. Grant Thornton also reported on their Value for Money conclusion. Having now seen the OfSted findings, they were proposing an unqualified conclusion.

December 2019

- 5.9. No reports were submitted in respect of final accounts and external audit. These will be taken to the March 2020 meeting.

March 2020

- 5.10. At this meeting Grant Thornton introduced their external audit plans and audit progress report for 2018/19. Also included were the housing benefit certification letter 2017/18. The discussion was in respect of the changing audit regime with tougher regulation which potentially impacts audit timing and cost for the Council. This will be kept under review for the 2019/20 audit.

6. Internal Audit Service

March 2019

- 6.1. The Acting Chief Finance Officer (in his capacity as Head of Audit) supported by the internal audit manager presented the Internal audit update report, which reported on the following:

Progress against the corporate internal audit plan for 18/19

- 6.2. The plan was at least to the Terms of Reference issued stage (70%). Some audits were cancelled or deferred (10) mainly due to resource issues for both the in-house team and contractor.
- 6.3. However, all those audits still in the plan were expected to be completed in time for the Annual Assurance report in June 2019.
- 6.4. There were four corporate reports issued, three substantial and one satisfactory opinions.

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Progress of implementation of corporate management actions

- 6.5. There were 183 open actions at the end of February 18. Of these, 80 (44% were overdue), which was an increase from the previous meeting which was 26%. It was also reported that 38% of the actions were taking 12 months of more to implement. The percentage has remained static since the last meeting.

Progress against the schools' audit plan for 18/19

- 6.6. All school have had their audits conducted. Of the six reports that were issued, one was limited. Of those that had not been finalised, two were at draft report stage, five were being written up and one was at review stage.

Indicative Audit Plan for 19/20

- 6.7. An outline of the plan and resources were presented for information. The full plan will be presented in June 19 for approval, once the current year's work is completed, so it will be more current and relevant.

Any other business

- 6.8. Recruitment of agency staff is under way again to find a suitable principal auditor. In addition, due the Head of Corporate Resources now acting up as the Chief Finance Office, the risk of conflict has returned so a temporary Head of Audit and Risk is being recruited.

July 2019

- 6.9. The Acting Chief Finance Officer (in his capacity as Head of Audit) supported by the internal audit manager presented the Internal audit update report, which reported on the following:
- 6.10. Councillor Rathbone was appointed Chair, with Councillor Maslin as the Vice Chair, of the Audit Panel for 2019/20. As in previous years, and in line with good practice, the Chair met privately with the external auditors to hear their opinions directly without officers present.

Progress against the corporate internal audit plan

- 6.11. At the time of writing, 18 reports were final, 5 were at draft, 13 at review stage and 5 were still working in progress. The plan is still to issue all the 18/19 work as draft by the end of July so the team can concentrate on the 19/20 plan.
- 6.12. This delay in the delivery of the plan is disappointing but not unexpected. As reported previously due to recruitment and retention difficulties with the in-house team and a general lack of resources available from in the sector, delivery of the 18/19 audit plan has been delayed.

There were ten reports issued since the last meeting, although there were no limited reports. However, there are some reports at review stage which maybe Limited and these will be reported to the next meeting and need to be considered as part of the annual assurance opinion. Three audits were cancelled or deferred since the last meeting.

Progress of implementation of internal audit management actions

- 6.13. There were 151 corporate open actions open. Of these, 68 (45%) were overdue. This is the highest amount of overdue recommendations in the last rolling year. In addition, there are 73 (48%) of actions that are taking over 12 months to implement.

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Progress against the schools' audit plan for 18/19

- 6.14. All school audit work is complete with 24 final and three at draft pending any feedback from the schools. There were five reports finalised since the last meeting, including one Limited report.

Audit Plans for 19/20

- 6.15. The audit plan for 19/20 was presented to members for information. The plan is to resubmit in September for the final approval. For School and Core Financial is allocated 145 days and 270 respectively.

Progress against audit plan for 19/20

- 6.16. While the focus is on completing the 2018/19 plan, the 19/20 schools' plan has started and is underway, with one audit at draft, and 11 audits have had their school visit. With the exception of three school audits that will take place in the summer holidays all will have their audits completed by mid July.
- 6.17. The four contract monitoring audits that were deferred are all under way.

Internal Audit Charter

- 6.18. Members approved the Internal Audit Charter for 19/20. Apart from the structure and showing more reliance on in-house staff, there were no significant changes from the previous year's charter.

Any other business

- 6.19. Due to the change in role of the Head of Corporate Resources to the Acting Chief Finance officer, the risk of conflicts of interest returned. External also identified this risk in their audit. The decision has therefore been taken to recruit to a dedicated Head of Internal Audit role with the work in progress to redefine this role as part of the Corporate Resources service and complete the recruitment.

September 2019

- 6.20. The Acting Chief Finance Officer (in his capacity as Head of Audit) supported by the internal audit manager presented the Internal audit update report which reported on the following

Progress against the internal audit corporate plan

- 6.21. The Head of Corporate Resources reported that the 2018/19 still had 12 audits outstanding. However their indicative opinions were included in the Annual Assurance report.
- 6.22. There were three audits cancelled from the audit plan due lack of progress to draft report. Two were IT audits that will now be included in the 1019/20 plan, and one was a core financial Main Accounting.
- 6.23. There were two limited reports issued, and four currently at draft.

Progress of implementation of internal audit recommendations

- 6.24. The number of overdue corporate actions increased from 45% to 55 % from the last meeting. However, this may be due to the summer holidays, where officers are away.
- 6.25. The number of actions taking over 12 months to implement, has decreased to 29% from a high of 48% at the previous meeting.

Progress against the schools' audit plan for 18/19

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- 6.26. All 24 school audits fieldwork has been completed and the reports are currently being written up. Two school audits have been finalised and all are expected to be issued as draft by the end of September.

Audit Plan for 19/20

- 6.27. The audit plan for 19/20 consists of 852 days. This is broken down by 145 days for schools, 472 days of corporate audit, 35 days for follow-ups, and 100 days contingency and 100 days management review time

Any other business

- 6.28. Recruitment to Head of Internal Audit post is not yet complete

Annual Assurance Report

- 6.29. The opinion of the Head of Corporate Resources on the overall adequacy and effectiveness of the Council's risk management systems and internal control environment during 2018-19 is Satisfactory. The Schools opinion also remains as Satisfactory.

- 6.30. Qualifications to the opinion were:

- Internal audit resources - vacancies experienced by both the contractor and in-house team impacted the delivery of the audit plan which was reduced in year from the original plan;
- Through part of the year, the Head of Internal Audit also had wider finance management responsibilities raising the risk of possible conflicts of interest for which compensating governance arrangements were adopted; and
- Following the move to the new finance processes and system early in the year some control weaknesses were identified with the accounts payable and receivable areas, the audit opinions for which were Limited

- 6.31. Issues relating to the Annual Governance Statement were:

- From the recommendations made in 2018/19, the common or more significant areas noted for improvement were: Compliance, Procedures, Governance and Security arrangements. In addition; for the AGS the risks in respect of Budget Monitoring, Contract Management, and Financial Control remain areas of focus for improvement

December 2019

Progress against the internal audit corporate plan

- 6.32. With the exception of two reports which remain at draft, all reports are final for 18/19.
- 6.33. Of the 33 audits in currently in the corporate plan for 19/20, seven audits / grant claims are in progress, two are at draft, one is at quality review stage, and three area at fieldwork stage.
- 6.34. The internal audit team have concentrated on completing the schools audit plan for 19/20, which is near completion:

Progress of implementation of internal audit recommendations

- 6.35. The number of overdue corporate actions have decreased from 55 % to 24% since the last meeting. This is positive.
- 6.36. The number of actions taking over 12 months to implement, has also decreased from 29% to 20%. This is positive.

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Progress against the schools' audit plan for 18/19

- 6.37. Of the 24 schools in the plan, 8 are finalised, 9 are at draft, 3 are at review, and 4 are being written up.

Public Sector Internal Audit Standards (PSIAS) – External review

- 6.38. The PSIAS is an external assessment that assesses how internal audit and the Audit Committee (panel) are adhering to the standards. The next one is due at the end of 2020/21.
- 6.39. Although the service met the standards, there were some actions that the audit panel were advised to implement. Members requested that the annual self assessment be presented at the next meeting.

Any other business

- 6.40. As declared, the Acting Chief Finance officer has a conflict of interest relative to their substantive post and Director of Corporate Resources, including the role of Head of Internal Audit. The decision, as previously reported, was made to recruit to a dedicated Head of Internal Audit role. Completion of this recruitment has yet to be completed and is to be prioritised.

March 2020

- 6.41. The meeting focused on progress with the 2019/20 audit plan, recognising the late start and resourcing challenges experienced against the plan. This means the focus of the internal audit work will be on completion of the 17 core financial audits and schools audit programme (completed). This resulted in nine audits being cancelled.
- 6.42. The Panel noted the cancellation of the Internal Control Board going forward with the focus of this work reverting to the Executive Management Team. In this context the Panel discussed the continuing unacceptable slow and late completion of recommendations by managers. It was agreed any recommendations taking more than a year to complete will need to be identified in future reports with an explanation from the relevant manager for the reasons and actions being taken. These managers may be called to present these to the Panel at future meetings.
- 6.43. The Panel also discussed the risk of Covid 19 to the service, recognising that in the worst case scenarios being planned for internal audit might need to be paused and resources diverted to support priority Council services.

7. Counter Fraud Arrangements

- 7.1. As previously reported to Public Accounts Select Committee the Audit Panel has moved to receiving an annual, rather than quarterly, report from the Anti-Fraud and Corruption Team. However, for the purpose of this report the workload of the team has been summarised in quarters as reported to the Internal Control Board. This will next be presented formerly to the Audit Panel in June 2020.

April 2019

- 7.2. The A-FACT report to ICB included detail of Lewisham's Anti-Fraud arrangements that was also published in the annual report to Audit Panel, this includes data required by the Local Government Transparency Code.

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- 7.3. A-FACT reported on a successful case that had been undertaken on behalf of Lewisham Homes which resulted in a solicitor receiving a suspended sentence for subletting his council property. The report also detailed revisions to the Councils Anti-Fraud & Corruption Policy.

July 2019

- 7.4. The A-FACT report detailed investigations into Business Rates fraud. There was also a successful case where a person who had made numerous false applications for employment with a number of Councils. The individual had been prosecuted by another authority supported by Lewisham.
- 7.5. During this period AFACT secured a successful prosecution for subletting resulting in a custodial sentence and in another case the final compensation payment of £21k was received in relation to a Fraud Act prosecution last year. The total proceeds from this case were just under £30k.

December 2019

- 7.6. AFACT reported that the number of employee related frauds remains low but the trend of undeclared business interest or other conflicts of interest continues.
- 7.7. A major success this quarter was the recovery of a 7 bedroom tenancy in Brockley. Sufficient evidence was presented in the County Court which proved the tenant actually resided in a luxury mansion worth over £3 million, owned by his wife. He had also claimed that various members of his family were resident. Following enquiries it was accepted that 2 persons linked to the property had a housing need but that the other 5 had no link to the tenancy.

February 2020

- 7.8. A-FACT reported on the use of CIFAS data to assist with their work. This had already assisted with identifying 78 Disabled Badges still registered to residents who are deceased.
- 7.9. A-FACT published, with their agreement, greater detail on the work carried out on behalf of Lewisham Homes. This included two investigations have been undertaken into employee conduct issues. Both employees resigned following interview by A-FACT but before disciplinary action could be taken.

8. Financial Regulations and Contract Procedure Rules

- 8.1. The Acting Chief Finance Officer is responsible for maintaining the Finance Regulations, Scheme of Delegation, and Contract Procedure Rules. The contract procedure rules, financial regulations and schemes of delegation were reviewed by the Constitutional Working Party (CWP) during 2019/20 and adopted by Council as part of the Constitution.

9. Annual Governance Statement

- 9.1. The Annual Governance Statement (AGS) forms part of the Council's financial statements. The AGS for 2018/19 was reviewed the Audit Panel as part of the financial statements presented to the September meeting and agreed by Full Council as part of the final accounts.
- 9.2. The AGS – in line with the external audit recommendation of the previous year – continues to be a short and concise summary of the key governance processes of the

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Council. The change for 2018/19 was a longer list of actions to include the necessary focus on progressing the response to governance and transformation challenges arising from the previous year's 'except for' VFM qualification. These noted the satisfactory annual internal audit assurance opinion and clean external audit opinion and VFM conclusion.

10. Other Business

- 10.1. During the year the Audit Panel has also focused on three areas. They are; 1) changes to the terms of reference and practice to be in line with good governance standards, 2) the inclusion of reporting on risk registers, and 3) progress with the Oracle Cloud project.
- 10.2. As noted above, during the course of the year the Panel raised the issue about the current terms of reference in the context of evolving industry practice as set out in the CIPFA guidance for audit committees. This was discussed at PASC and M&C with the agreement they should be reviewed going forward. This will be conducted for 2020/21 as part of the regular constitutional review. In the meantime the Panel has already begun to shape its workplan to incorporate some of these changes. For example; receiving the corporate risk register as a standing item, putting in place a stronger requirement for Councillor member training, and adding an additional meeting in June to better focus attention and scrutiny on both the annual reports from internal and external audit.
- 10.3. In respect of the risk register, the March 2020 Panel received the first quarterly report. As well as understanding the Council's operational practices and approach to compiling and maintaining the register, the Panel explored how it was used to inform management decision making and some of the key risks. It was agreed going forward the Panel would pick one or two risk for each meeting in their forward plan and invite officers to present on these in more depth. This will start at the June meeting with a focus on Cyber Security and IT Infrastructure.
- 10.4. The Transition to Oracle Cloud for finance, payroll, and human resource management is well advanced. The Finance and Core HR aspects went live in May 2018 and the financial audit for 2018/19 evidenced that the system was working well. The next phase has been on preparing the transition to the payroll and full HR self-service functionality. Through 2019/20 the Panel has received regular updates, with a more detailed report on progress with implementing control improvements and audit recommendations at the December meeting. This will continue until the systems is fully up and running and stable.
- 10.5. Looking forward to 2020/21, it is anticipated that the Audit Panel with these additional areas will continue to manage its work on a similar basis with the valued ongoing support of independent members on the Audit Panel. The internal audit service will also be subject to its five yearly independent assessment of compliance with professional standards.

11. Financial implications

- 11.1. There are no financial implications arising directly from this report.

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12. Legal implications

12.1. There are no legal implications arising directly from this report.

13. Equalities implications

13.1. There are no equalities implications arising directly from this report.

14. Climate change and environmental implications

14.1. There are no climate change or environmental implications arising directly from this report.

15. Crime and disorder implications

15.1. There are no crime or disorder implications arising directly from this report.

16. Health and wellbeing implications

16.1. There are no Health or Wellbeing implications arising directly from this report.

17. Background papers

17.1. The background papers to this report are the Audit Panel meeting records published on the Council's website. [Audit panel reports on the council website](#)

18. Report author and contact

18.1. If there are any queries on this report, please contact Selwyn Thompson, Director of Financial Services on 020 8314 6932 or David Austin, Acting Chief Finance Officer on 020 8314 9114.

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