

# MINUTES OF THE AUDIT PANEL

Wednesday, 19 September 2012 at 7.00 pm

PRESENT: Councillors Michael Harris (Chair), Ami Ibitson, Dan Whittle, Jim Mallory, and Richard King and David Webb

Apologies for absence were received from Paul Dale and Mike Robinson

## 11. Minutes

RESOLVED that the Minutes of the meeting of the Panel held on 20 June 2012, which was open to the press and public, be confirmed and signed as a true record of the proceedings.

## 12. Declaration of interests

Councillor Mallory declared a personal non prejudicial interest for item 5 as the Chair of the Management Committee of Abbey Manor College.

## 13. Annual Governance Report

### Main Accounts

Members received a tabled update at the meeting. Sue Exton, District Auditor, Audit Commission introduced the report. She said that she was pleased to report that most of the work on the accounts had been completed, and external auditors were currently awaiting the signed subsidiary accounts for the group accounts and had a few outstanding queries for the main accounts. She added that the quality of the accounts was much improved from the previous year. Ms Exton advised members that a number of amendments have been agreed, as there was still scope for improvement. It was noted that all risks have been identified, and the work completed, with no issues to report.

Ms Exton informed members that there were two significant weaknesses in asset control:

- in the preparation of bank account reconciliations for some of its bank accounts.
- asset register did not contain all the transactions that had taken place during the financial year.

Ms Exton stated that the Council have identified steps that needed to be taken to address them.

The Chair asked what the timeframe was to complete the action plan in appendix 6. Members were told the end of October was the deadline. The Head of Business Management and Service Support said that he would give a personal assurance that Bank reconciliations would be addressed as soon as possible. Mr Webb asked why there were no documentation to back the stated figures. The Group Finance Manager said that there were two sets of reconciliations that of payments, and that of income. He added that there were some gaps in the reconciliation of

income, and although they were incomplete for part of the year, the figures had not been made up.

Mr King said that the date for completion was October 2012, and asked whether staff would adhere to this date. The Head of Business Management and Service Support said that he would take responsibility to sign off the reconciliation for the end of September in October. He added that he could not guarantee they would be completed, but he recognised the urgency and would do his best. Mr King asked whether staff had thought of using a weekly process. He also said that given the differences that had been highlighted, staff would not be certain that fraudulent activity had not taken place. The Head of Business Management and Service Support said that although he was not certain of this, given the nature of the differences it was unlikely fraud was the case.

The Chair said he needed to confirm that reconciliation was now taking place. This was confirmed by the Head of Business Management and Service Support, who said that an update report would be brought to the Panel at their next meeting.

### Pension Fund

Sue Exton introduced the report and stated that although there were problems last year, the quality of the accounts was much improved this time, but there was still scope for improvement. She added that the corrected areas could be found on appendix 2 of the report, with the action plan in appendix 6. Ms Exton informed members that the 3 recommendations in appendix 5 have all been agreed.

Mr King said he had noted the discrepancy in the date of Harbourvest Investments which was wrong and asked if this was a common error identified by auditors. Ms Exton said it was not. The Head of Business Management and Service Support said that it was a practice of external custodians, and staff would have discussion with them about reconciling their timetable with that of the Council. The Chair said that this was an important issue if it had resulted in a £2. million difference. The Head of Business Management and Service Support, said that the error would be investigated. Councillor Whittle asked if this issue could be pursued by the Pension Investment Committee. The Chair said this could be done if the Committee was looking at the figures.

Councillor Whittle asked why the Pension Bank Fund Account was not separate from that of the Council. The Head of Business Management and Service Support said that this would be an administrative cost that would add to the Council's oncost. He added that so far they were not aware of any incident of concern. He said that everything was being done to ensure that pension assets do not get mixed up with Council assets.

The Chair asked whether there was not a regulation in place that needed to be followed by the Council, and was told yes, Regulation 2009. Sue Exton said that this weakness had been mentioned before, but there were some Councils who followed the Regulation as stated, and some who do so for some transactions, and not for others. Mr Webb said that this would not be viewed positively in the Governance report. The Head of Business Management and Service Support, said that he would not be able to justify the extra spending for something that would not be beneficial to the Council, and it was not an urgent priority. The Chair asked for

this issue to be considered, he added that he was happy to note that the accounts might be signed on time this year.

RESOLVED that the Annual Governance Reports for the Council's Main Accounts and the Lewisham Pension Fund Accounts be noted.

#### **14. External Auditor's Reports on the 2011/12 Accounts**

The Group Finance Manager introduced the report. Mr King asked why the system of financial control had been described as good rather than improved. Sue Exton concurred that good was not a term Auditors find easy to use as it was a qualitative judgement, and it would be better to describe the system as an effective system. Mr King then commented that the description of the 2011/12 assurance reviews was a bit confusing, as it stated that there had been improvement, but according to the report the negative level was 7% last year whilst this year it stated 11%. The Interim Head of Audit & Risk informed members that there were two systems, the general internal control framework and specifically the financial control arrangements within these. He added that the audit opinion in June was satisfactory, but the delivery was slightly weaker. Mr King said it would be useful for this to be explained further in the next annual assurance report from internal audit as it maybe confusing to readers. This was agreed.

RESOLVED that the report be noted.

#### **15. Internal Audit Update Report**

The Interim Head of Audit & Risk introduced the report, which summarised progress on delivering the internal audit plan since the last Audit Panel report, performance of the Internal Audit contractor, and implementation of internal audit recommendations. Panel members noted that 96% of the recommendations have been implemented. Audit Panel was informed that improvements have been made and the number of overdue recommendations have come down, as constant reminders were being sent out. It was noted that the Principal Accountant was present at the meeting. He updated members on the current position with VAT. The Chair commented that the recommendations were significantly overdue, and that officers should ensure that in future these recommendations are implemented on time. Councillor Mallory added that he could understand that the re-organisation within a section as a result of funding cuts, may have contributed to delays.

Panel members noted that the Head of Resources, CYP sent his apologies for not attending the meeting. The Interim Head of Audit & Risk read out the Children & Young People (CYP) Directorate's update on their outstanding recommendations. The Chair had some questions, and the interim Head of Audit & Risk suggested that the Head of Resources, CYP could be invited back to the Panel's meeting in November. The Chair added that children data could become an issue in future, and Headteachers would need to be made aware of this.

David Webb asked what the Audit Panel could do if there was a delay in Headteachers following up their recommendations. The Interim Head of Audit & Risk informed members that influence over Headteachers would be the

responsibility of the school's Board of Governors, especially the Chair of the Board.

Panel members asked why the Resources Directorate's target dates for operational risk registers have been changed twice, and Community Mental Health target date changed 7 times. The Interim Head of Audit & Risk said that for the risk recommendation this was partly because of issues around training. It was noted that Lewisham has a specific system and an e-learning course is being documented and would be finalised in November/December. In respect of the SLAM audit this recommendation will be kept open and a new audit scheduled for this area in early 2013 to revisit the controls in place given the delays in management being able to conclude the agreed actions.

It was noted that following an update from the Head of Information Management & Technology on Cyber Security, the majority of recommendations have now been addressed, and others were being resolved. The Chair requested an update at the next Audit Panel meeting.

The Chair stated that the reporting tables were very useful, especially when cross referenced with the Risk Register. He added that it would be useful to bring back the tables when the Risk Register is being considered in March.

In respect of the continuous auditing reports being introduced, David Webb asked whether Panel members were convinced that there was management capacity to use all the information that would be generated. The Interim Head of Audit & Risk stated that it was management responsibility to ensure the process was being adopted, monitor the trend and see if there were exceptions. The Head of Business Management and Service Support said that they were having robust conversation with internal audit, they were aware of the capacity risk, and would ensure that the right information was being generated.

Richard King asked why two medium recommendations were not agreed by management, and was told that a cost benefit analysis was done before the decision was taken. The Director of Internal Audit commented that they would not make a recommendation unless they thought it would be beneficial.

In respect of the superseded recommendations, Mr King asked whether the Public Transparency Board – Public Data have now being completed. It was noted that it has been implemented and spending data published. Richard King then asked why some recommendations were made if they would not improve service delivery, noting that the customer involvement strategy recommendation was discussed during the section's restructuring, and the team has now been dissolved. Some of the recommendations discussed and agreed were done by people no longer working in the section, and the environment service had gone through reorganisation.

Mr Webb commented that the performance of the contractor was still substantially behind the agreed deadline. The Chair asked why the contractor would set a target that could not be met. The Director of Internal Audit said that if they set a lower target they still might not meet it, and because they were trying to improve their performance level, a higher target was necessary. He added that their performance had improved from last year. The Head of Business Management

and Service Support stated that there was a balance to be struck, and the Council still maintained the right to hold contractors to account. Following a robust discussion on the performance a higher target was deemed beneficial.

The Interim Head of Audit said that the Council have received a rebased audit plan from the contractor to deliver all the commissioned 2012/13 work by April 13. As a result future updates would be changed, and monitoring undertaken on these revised targets. The Chair said this would be useful.

RESOLVED that the report be noted.

#### **16. Anti Fraud and Corruption Team (A-FACT) Update**

The Interim Head for Audit presented the report, and highlighted that the team levels of referrals remain high. Councillor Whittle asked how many people were in the team, and was told that there was a total of 12 people including a seconded Police Officer. It was noted that on average for every four cases investigated, one result in action for a proven fraud. Councillor Whittle then asked if the article at the back of the report was published locally. The Interim Head of Audit & Risk said that the team seek to publish a news item for every prosecution on the Council's website, but this and any press take up is a matter for the communications team in managing these and other communication priorities.

The Chair asked whether officers were aware of problems that could be faced by authorities who undertake surveillance. The Interim Head of Audit & Risk, said that Lewisham does use surveillance but not external investigators. Furthermore, there are documented procedures and a process to ensure sufficient rationale behind any decision to undertake surveillance. The Council's compliance with these regulations is also monitored externally through inspection by the Office of Surveillance Commissioner. The Chair said that guidance should be followed at all times. The Chair asked how often Surveillance have been used and the Interim Head of Audit & Risk said he would find out and report back.

The Chair requested that the Panel review the Council's whistle blowing policy at the next meeting.

RESOLVED that the report be noted.

The meeting ended at 8. 57p.m.