

Public Accounts Select Committee		
Report Title	Report on the work of the Audit Panel	
Key Decision	No	Item No. 6
Ward	None	
Contributors	Chair of the Audit Panel	
Class	Part 1	Date: 10 March 2015

1. Purpose of the Report

- 1.1. 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, June, September and November 2014 meetings.

2. Recommendations

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

3. Background

- 3.1. Under the Terms of Reference (ToR) in the Council's Constitution as at September 2014, the Audit Panel is required to report to the Public Accounts Select Committee (PASC) where appropriate.
- 3.2. Audit Panel review and advise the Council on the Internal Audit function, Control Environment, External Audit and the Council's final accounts, Risk and Anti-fraud policies and procedures. The Audit Panel is also required to review the Council's Constitution in respect of audit procedure rules, contract procedure rules, and financial regulations.
- 3.3. PASC are required to scrutinise the effectiveness of the Audit Panel.
- 3.4. The link below takes you to the Council's constitution, which contains the Terms of reference for both Audit Panel and PASC.
<http://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/Documents/TheConstitutionSeptember2014.pdf>
- 3.5. Since May 2014, the Audit Panel consists of six non-executive councillors, one of whom is the Chair (currently Councillor Helen Klier), and three independent members (although it can contain up to four independent members).

4. External Audit and the Council's Final Accounts

- 4.1. The external audit work follows a cycle through the year. This covers interim and planning work in the Spring, draft final accounts in the Summer, audit findings and opinion in the Autumn, and Whole of Government Accounts and grant certification work in the Winter.

March 2014

- 4.2. At the March meeting under the previous administration the Audit Panel received an update on the interim external audit work of the Council's appointed auditors Grant Thornton.

June 2014

- 4.3. In June the Panel received and noted the draft financial statements and accompanying policies and notes and agreed these be submitted for audit.

September 2014

- 4.4. In September the Panel received the results of Grant Thornton's audit work on the financial statements. Although not requiring adjustment or qualification, the key areas highlighted by the external auditors were:

- on the final accounts, that improvements were required to the process in respect of the valuation of non-current assets and the timely completion of financial reconciliations, and
- on the value for money statement, that the use of once off resources to set a balanced budget and level of future savings required in coming years meant this was a key area of risk for the Council going forward.

- 4.5. Accepting the above and noting officers planned actions, the Panel noted the unqualified opinions for both the financial statements and value for money work from Grant Thornton and thanked them for their work.

November 2014

- 4.6. In November the Panel received the conclusions of Grant Thornton's audit work on the Council's submission for the HM Treasury Whole of Government Accounts and grant claims audit work. The external auditors noted that the Council's preparation of these returns this year was an improvement on the previous year. However, in respect of the certification of grant claims there were again some issues with the completeness and accuracy of supporting working papers that resulted in additional audit work and delayed the completion of this work.

- 4.7. The Chair of the Audit Panel met with the external auditors independently ahead of the meeting. No issues arising from this discussion required tabling at the subsequent meeting. In line with recognised good governance practice, these meetings will continue on an annual basis.

5. Internal Audit Service

- 5.1. At each meeting the Panel reviewed the update report for those audits completed in line with the plan, the assurance opinions provided, and the progress made on implementation of the High and Medium recommendations.

March 2014

- 5.2. The Head of Corporate Resources presented the Internal Audit plan for 2014/15. Having considered the plan against the corporate risks Members queried the timing and reason for some of the audits in the plan. The explanations provided by officers were accepted and the plan agreed.

- 5.3. The Audit Panel were concerned with the reduction in audit days as a consequence of agreed savings. The Audit Panel were informed that, by mutual

consent, the contract for internal audit services from Baker Tilly would cease at the end of June 2014. The Audit Panel requested that the Head of Corporate Resources provide an update on the strategy for the service at a future meeting,

- 5.4. The Audit Panel reviewed the Internal Audit charter, which has replaced the strategy and Terms of reference for Internal Audit. Members suggested improvements, which included that the charter:
- contain reference to officers attending the Audit Panel where concerns on the progress with implementing internal audit recommendations were raised.
 - be made more transparent by including a structure chart, a fuller introduction, and be written in plain English rather than as a technical document.
- 5.5. The Head of Corporate Resources confirmed that these changes would be made and the charter updated for 2015/16.

June 2014

- 5.6. In June, the new Chair and Vice Chair were elected and the Audit Panel were presented with the Annual Assurance Report (for 2013/14).
- 5.7. The Head of Corporate Resources opinion on the adequacy and effectiveness of internal controls of the Council was Satisfactory. This opinion was qualified, and the Panel noted the following:
- Only 74% of the audit plan had been completed to final report stage by the end of May.
 - The 'No Assurance' opinion for one school review reflected local circumstances and was not indicative of a lack of controls in all schools.
 - There was a rise in recommendations being re-opened or delayed.
 - The number of changes to the audit plan was higher than usual reflecting the pace of change within the Council, which is expected to continue.
- 5.8. The Audit Panel queried why there was a delay in IT responding to their recommendations. It was noted that resources had been diverted to ensure the Council complied with Public Sector Network requirements now being enforced. The Audit Panel requested an update from the Head of Technology at a future meeting.
- 5.9. Concerns were raised on the consultancy review of reconciliations in finance which had two high recommendations. Members noted that timely and accurate reconciliations are critical for financial control, all the more so with the new finance system coming in and in the present financial climate. The Head of Corporate Resources said that in terms of follow up reconciliations are looked at annually through the key systems work by both internal audit and external audit.

September 2014

- 5.10. Members noted that the Internal Audit service is still going through a restructure. The Head of Corporate Resources confirmed arrangements are in place to ensure that core financial internal audits (by Mazars – Croydon Framework); IT system audits (independent IT auditor), and school audits (Royal Borough of Greenwich) will be completed on time.
- 5.11. The Head of Corporate Resources was asked to clarify the restructure. The intention over the next three years is to transition to a mainly in-house service with

qualified experienced auditors supported by finance trainee accountant / auditors. And that this core resource would be supplemented by bringing in specialist support for key risks or targeted pieces of assurance work on an as needed basis.

- 5.12. At the recommendation of the Internal Control Board, it was agreed to change the internal audit year has to July to June, from April to March, to better align with the annual reporting cycle and ease pressure on finance teams around the March year end close.

November 2014

- 5.13. An improvement in the timely implementation of internal audit recommendations by management was noted.
- 5.14. The new Head of Change and Transformation attended and provided the Audit Panel with a verbal update on the development of the IT strategy, changes in the IT service, and progress with the implementation of internal audit recommendations.

6. Counter Fraud Arrangements

- 6.1. At each meeting the Panel reviewed the update report for investigations completed and in progress in the three key areas of special investigations (including employment matters), benefits, and housing.

March 2014

- 6.2. The National Fraud Initiative benchmarking report was received with Lewisham ranked fourth in terms of number of cases detected but lower by value of fraud.
- 6.3. The Panel also noted the likely impact of agreed savings on benefit investigations for 2014/15 ahead of the transfer of this service to the Department for Work and Pensions (DWP).

June 2014

- 6.4. Officers introduced the work of the Counter Fraud team to the new members of the Panel and this was discussed with the points that the service continues to have the support of a seconded Police Officer and work is largely reactive.

September 2014

- 6.5. The Panel received an update on DWP's national Single Fraud Investigation Service hosted and the confirmed date of 1 April for the transfer of benefit investigators from the Council to DWP.
- 6.6. The Panel also noted the continuing good results from partnership working to identify housing fraud and recover sub-let properties. And the impact from obtaining these nomination rights has on available social housing for the Council.

November 2014

- 6.7. The fall in concluded special investigation work was discussed with the lower number of employee cases welcomed. The work to support review of 'no recourse to public funds' cases was noted in the context of the financial pressures arising from these cases for the Council in 2014/15.

7. Financial Regulations and Contract Procedure Rules

- 7.1. The Head of Corporate Resources is responsible for maintaining the Finance Regulations, Scheme of Delegation, and Contract Procedure Rules. These were reviewed and updated in June 2014 and submitted to the Constitution Working Party to be approved.
- 7.2. A similar annual review will happen again in June 2015. New for 2015/16 will be the changes resulting from the new European Procurement regulations. An update of the key changes will be provided to the Audit Panel for comment.

8. Statement of Internal Control (SIC) / Annual Governance Statement

- 8.1. The statement of internal control now forms part of the wider Annual Governance Statement (AGS) published each year as part of the Council's financial statements.
- 8.2. The draft AGS relating to 2013/14 was reviewed at the June Audit Panel meeting and agreed as final at the September meeting when the accounts were approved. The AGS took a new format this year – being much more concise – in line with the external audit recommendation of the previous year. The Panel welcomed this change as the statement is now clearer and the key messages more accessible.
- 8.3. The AGS for 2014/15 will be reviewed at the June and September meetings of the Audit Panel.

9. Other Business

- 9.1. Nothing further to report at this time.

10. Legal Implications

- 10.1. There are no legal implications arising directly from this report.

11. Financial Implications

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

12. Equalities Implications

- 12.1. There are no Equalities implications arising directly from this report.

13. Crime and Disorder Implications

- 13.1. There are no crime and disorder implications arising directly from this report.

14. Environmental Implications

- 14.1. There are no legal implications arising directly from this report.

15. Background Papers

15.1. There are no background papers. If there are any queries on this report, please contact Selwyn Thompson, Head of Financial Services on 020 8314 6932 or David Austin, Head of Corporate Resources on 020 8314 9114.