

Public Accounts Select Committee		
Title	Report on the work of the Audit Panel	
Contributor	Head of Financial Services and Head of Corporate Resources	Item 8
Class	Part 1 (open)	21 March 2018

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 December 2017 meetings.

2. Executive Summary

- 2.1. The report sets out in some detail the topics covered by the work of the Audit Panel through the financial year 2017/18. From these the highlights to note are:
- The changes to the independent members serving on the panel with ongoing thanks from the Council members for their continued support;
 - The timely preparation of the financial statements by Council officers for audit and the subsequent unqualified audit opinion issued on these;
 - In addition to monitoring the work of internal audit and the coverage of their risk based work, the Panel noted the Limited annual assurance opinion of the Head of Internal Audit and challenged officers to make the improvements identified; and
 - The Panel also held more detailed discussions through the year on the areas of procurement and contract management, levels and engagement of agency staff, and programme updates for the move to the Oracle Cloud platform.

3. Recommendations

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

4. Background

- 4.1. Under the Terms of Reference (ToR) in the Council's Constitution as at December 2017, the Audit Panel is required to report to the Public Accounts Select Committee (PASC) where appropriate.
- 4.2. 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.
- 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.

<https://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/Pages/Our-constitution.aspx>

- 4.5. The Audit Panel consists of six non-executive councillors, one of whom is the Chair (currently Councillor Jonathan Slater), and three independent members (although it can contain up to four independent members).

5. External Audit and the Council's Final Accounts

- 5.1. The final accounts and external audit work follow 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 late Spring, final accounts audit work in the late Spring / early Summer, final audit findings, recommendations and opinion in the late Summer / early Autumn, and the Whole of Government Accounts certification and grants certification work in the Autumn / Winter.
- 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 2017

- 5.3. At this meeting an update was provided to the Panel on the final accounts planning and interim external audit work – officers were seeking to improve areas where problems had been identified the previous year. The final accounts timetable would be consistent with the previous year, in readiness for the change in statutory dates to take effect from 2017/18. There was also an update from Grant Thornton on the grant claims certification audit work – there had been improvements in this area since the previous year but constant work was still needed to improve the compilation and overall process.

June 2017

- 5.4. The Panel received and noted the Pre-Audit Statement of Accounts (including the policies and notes). The external audit plan report was also received and noted. It was indicated that the external audit Value for Money (VFM) conclusion would not be finalised until the New Bermondsey Inquiry had been concluded.

September 2017

- 5.5. The Panel received the findings and key matters arising from Grant Thornton's audit work on the Main accounts and the Pension Fund accounts. It was anticipated that both sets of accounts would be given an unqualified audit opinion. The key points highlighted by the external auditors and agreed by officers were:
- on the Main accounts, there had been a marked improvement in the quality of the financial statements for 2016/17 compared to 2015/16, and as a result there were no significant issues to be brought to the attention of Members

- officers had again successfully produced draft financial statements by the target date of 31 May, in preparation for the new statutory deadline of publishing the audited accounts by 31 July in 2017/18. However, it had not been possible for the audit to be fully completed by 31 July in 2016/17, because of unforeseen staffing issues on the audit side, and
- the audit of the Pension Fund accounts had also been successful, with only minor errors found.

As previously anticipated, Grant Thornton reported that they were unable to issue a VFM conclusion at this time, pending the outcome of the New Bermondsey Inquiry. The Panel noted this position and the expected unqualified opinions for the financial statements

December 2017

- 5.6. Unfortunately, this meeting was not quorum. A meeting did take place for information purposes only

6. Internal Audit Service

March 2017

- 6.1. The Head of Corporate Resources (in his capacity as Head of Audit) presented the Internal audit update report which reported on the following:
- 6.2. Progress against the internal audit plan for 16-17
- 6.3. The progress against the plan was not as far forward as they wanted to be. But expected that the plan would be completed in time for the annual assurance report. The schools' audit plan would be all completed during March, with all reports issued to at least the draft report stage.
- 6.4. Progress of implementation of internal audit recommendations
- 6.5. Internal audit presented the Internal Control Board (ICB) with an aged analysis report showing the time taken to implement recommendations from the final report. It showed that 20% of recommendations still open after more than one year.
- 6.6. There were 123 open corporate recommendations open at the end of February. Of these 26 (21%) were passed their due date (overdue). This is an improvement from the last meetings.
- 6.7. Types of control
- 6.8. At the last meeting, the Audit Panel requested that Segregation of Duties (SoD) should become a regular agenda item. Internal audit reviewed 13 finalised reports, there was only one recommendation related to SoD. Internal audit proposed to include other types of controls, as they are equally important. Going forward the following controls will be reported on SoD, Reconciliations, IT, DPA, Procedures, Policies, Compliance / Legislative, Authorisation, Governance and Other. Members were happy that this would be included in future reports.

6.9. Draft internal audit plan for 2017/18.

6.10. The Head of Corporate resources stated that the draft plan for 2017/18 had been prepared based on meetings with all Directors and Heads of Service with reference to recent audit work, other assurances in some areas (e.g. external inspections), reference to the available risk registers, and anticipated changes in service plans. It had approximately 1,000 days of internal audit across all areas – core financial, IT, services, advisory and schools in approximately 100 pieces of work.

6.11. Any other business

6.12. In addition to the above, the Head of Corporate Resources, in his Procurement role, presented an update on the procurement activities within the council. Following a review and three failed recruitment drives, the council approached the London Borough of Lambeth for procurement service. A Service Level Agreement was agreed and started in November 2016.

June 2017

6.13. The Audit Panel welcomed Carole Murray as a prospective Independent Panel Member who came to observe the meeting before being formerly appointed at Council in September.

6.14. Annual Assurance Report

6.15. The Head of Corporate Resources presented the annual assurance report. The overall opinion was still 'Limited', but improving for corporate audits. The opinion for schools was 'Satisfactory'. The opinion was qualified. The Head of Corporate resources stated that internal audit service did not complete as many audits as originally planned due to resourcing issues. In addition, changes to the reporting of risk may have led to gaps in the focus of the risk based audit plan

6.16. Issues relating to the annual governance were similar to last year, the common areas Budget Pressures, Human Capital, Contract Management, and Financial Control.

6.17. The internal audit service improvement programmed aims to recruit the vacant principal auditors and trainee post, and procure an internal audit management system.

6.18. Progress against the internal audit plan

6.19. The 2016/17 corporate audit plan still had four audits to be finalised and five to be issued as a draft as at 31/05/17. The schools' plan had three audits to finalise with one audit still to be issued as a draft.

6.20. Progress against the 2017/18 corporate plan is underway with nine audits underway.

6.21. Progress of implementation of internal audit recommendations

6.22. There were 146 corporate open recommendations as at 31/05/17. Of these, 22 were overdue (15% of the open recommendations). This is the lowest amount of overdue recommendations in the last rolling year.

6.23. There are 17 (12%) recommendations that are taking over 12 months to implement.

6.24. Any other business

6.25. In addition to the above, the audit panel were presented with the internal audit charter for 2017/18. There were no significant changes to the charter from last year. The audit panel approved the charter.

6.26. The audit panel also approved the final internal audit plan 2017/18 plan. There were no significant changes since the March meeting. However, the audit panel are notified of any changes to the plan are reported to the audit pane throughout the year.

6.27. The internal audit service has been attending / supporting the Oraclecloud project and have been advising on the controls to support the end-to-end process.

September 2017

6.28. Progress against the internal audit plan

6.29. The Head of Corporate Resources reported that the 2016/17 audit plans (corporate and schools) are now complete. The 2017/18 audit plan was well underway with 40% of the plan in progress.

6.30. Progress of implementation of internal audit recommendations

6.31. The percentage of overdue recommendations to open recommendations had increase from 15% to 33%. The aged analysis report show that 19% of recommendations are taking over one year to implement from the final report

6.32. Any other business

6.33. The in-house team has had some changes to the in-house team with staff moving on. Recruitment is underway to ensure the service remains effectively resourced.

December 2017

6.34. Unfortunately, this meeting was not quorum. A meeting did take place for information purposes only

7. Counter Fraud Arrangements

7.1. As reported to Public Accounts Select Committee last year the Audit Panel has moved to receiving an annual rather than quarterly report from the Anti-Fraud 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 2018.

March 2017

During this quarter AFACT implemented powers under the Prevention of Social Housing Fraud Act which allows local authorities to require financial institutions and utility companies to provide information relating to those suspected of committing housing related fraud. This assisted with the investigation of tenancy fraud and fraudulent housing applications.

June 2017

AFACT made their annual report to Audit Panel. This included detail of Lewisham's Anti-Fraud arrangements which were published in the report as required by the Local Government Transparency Code. Panel members raised concerns that action taken against employees who had been guilty of fraud ought to be strict enough to serve as a deterrent. The Panel were advised that disciplinary action was taken in accordance with the Councils disciplinary process.

September 2017

During the summer AFACT, along with the Executive Director for Resources and Regeneration, met with the CIPFA Chief Executive and Counter Fraud lead for an update on progress with their fraud hub. The proof of concept trials for the newly on boarded data sets from other government departments and agencies is progressing. This adds to the quality of matching (eliminating more false positives) and extends the breadth of searches outside of housing and benefits to include more on areas such as direct payments and procurement. The business model aims to charge on the basis of contingent fee for successful matches provided with the next sign up round to be in the new year. The Council are continuing to negotiate the terms of this product but are committed in principal to participating in the scheme providing satisfactory agreement on terms can be reached.

December 2017

A-FACT conducted reported on two successful exercises targeting Blue Badge Fraud Lewisham resulted in 10 penalty charge notice's being issued and 5 Blue Badges seized including two which belonged to deceased people. The most serious of these cases are being prepared for court action which could result in a fine of up to £1,000 and a criminal record. This project was publicised on Lewisham Council's Facebook and Twitter and received positive feedback as well as a number of new referrals.

Lewisham Council had been victim to two attempts to change supplier bank details. One had been detected and the other a refund had been obtained from the Councils bankers. Processes have been tightened as a result and staff reminded of this fraud risk.

8. Financial Regulations and Contract Procedure Rules

- 8.1. 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 2017 and submitted to the Constitution Working Party to be approved and onto full Council in November 2017 where they were adopted.

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

- 9.1. 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.
- 9.2. The draft AGS relating for 2016/17 was reviewed at the June Audit Panel meeting and agreed as final at the September meeting when the accounts were approved.
- 9.3. 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 Council and three or four areas for continuous improvement. These noted the limited annual internal audit assurance opinion.

10. Other Business

- 10.1. Looking forward it is anticipated that the Audit Panel will continue to manage its work on a similar basis for 2017/18 with the ongoing support of independent members on the Audit Panel. It is recognised that 2018/19 will be an important year for the early close and audit of the financial statements and finance, HR and payroll moves to the new OracleCloud platform.

11. Legal Implications

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

12. Financial Implications

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

13. Equalities Implications

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

14. Crime and Disorder Implications

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

15. Environmental Implications

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

16. Background Papers

- 16.1. 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.