

MINUTES OF THE AUDIT PANEL

Thursday, 12 July 2018 at 7.00 pm

PRESENT: Councillors Alan Hall (Chair), Mark Ingleby (Vice-Chair), Louise Krupski, Joan Millbank, Carole Murray, Ian Pleace and Stephen Warren

12. Election of Chair and Vice Chair

RESOLVED that

- i. Councillor Hall be appointed as Chair of the Audit Panel for the 2018/19 Municipal year.
- ii. Councillor Ingleby be appointed Vice Chair of the Audit Panel for the 2018/19 Municipal year.

13. Minutes

The Head of Financial Services informed Panel Members that the first phase of the transition from Prince to Oracle Cloud had gone live, and Oracle Cloud would remain a standing item on the agenda going forward.

Ian Pleace congratulated officers on their achievement and requested an update at the next meeting on progress and significant details of the operation.

Action >>>>> Head of Financial Services

RESOLVED that the minutes of the open meeting held on 20 March 2018 be agreed as a correct record.

14. Declarations of Interests

Councillor Ingleby declared a personal non pecuniary interest in item 4 as a Director for Lewisham Homes.

Ian Pleace declared a personal non pecuniary interest in item 4 as the Director of Finance at Goldsmiths University, and Goldsmiths University would be bidding for good growth funding with the Council.

15. Pre Audit Statement of Account 2017-18 and Annual Governance Statement

The Head of Financial Services introduced the report and informed Panel Members that the Accounts were submitted at the end of May in line with audit procedures. It was noted that the Accounts would be going to the Council meeting on 18 July to be signed off by the end of July.

The Chair said it might be a bit early for signing off the Accounts by Council as all the work had not been completed.

Councillor Krupski questioned the figures of the Children and Young People's Directorate's gains and was told the method of valuation had changed, and the school's land value had increased to £128m. This valuation was for what the land could be used for. Panel Members stated that the report could be made more user friendly by adding some narratives to explain the figures. Officers assured Members that they would make the reports more user friendly going forward. The Head of Corporate Resources said a good template would be useful, and Ian Pleace responded that Goldsmiths have a good one, and he would be glad to help.

Action >>>>> Head of Financial Services

Stephen Warren informed Panel Members that he would not normally expect depreciation to be negative, especially at £98m, he asked officers for an explanation. Panel Members were told the report had been updated, and unfortunately they were looking at an early draft. The Chair said Panel Members would need to see the updated report once it had been signed off.

Action >>>>> Head of Financial Services

Councillor Ingleby asked for an explanation on non-current assets as stated on page 54 of the report, and was told officers would get back to him as soon as possible.

Action >>>>> Head of Financial Services

RESOLVED that the report and its appended documents be noted.

16. Audit Draft Findings 2017-18

Andy Ayre, External Auditor Grant Thornton, introduced the report, and informed Panel Members that all the work was on track and there was nothing to indicate that the Council would not get an unqualified opinion. Councillor Krupski asked what percentage of the work had been completed and was told 80%. Ian Pleace said this was reassuring, as there was not much left to do. The Head of Financial Services said officers were also anticipating an unqualified opinion.

Officers informed Panel Members value for money, and transformation programmes were all delaying the work. Panel Members asked about the timescale for determination and were told the delay had arisen because of the difficulty of the volume of work officers had to go through, they had 15 PFIs to address. He said next year would be different, as the LOBO loans were simpler. The Chair received confirmation that the Accounts could still be signed off even if some of the audits were delayed.

Stephen Warren asked for an update of the analytic report to the next meeting, once the value for money conclusion had been considered. He also asked officers to respond to Panel Members' concerns about the Council's approach towards use of reserves.

Action >>>>> Head of Corporate Resources

Audit Findings Pension Fund

Andy Ayre, External Auditor Grant Thornton, introduced the report, and informed Panel Members that it was straight forward, with nothing significant, and mostly completed. He said they were confident the Council would get an unqualified opinion.

Panel Members raised concerns about the prior year's recommendation on 45 of the report and were told Management were addressing this and an update would come to the next Audit Panel meeting. It was also noted that the Annual Report would be reported to the Pension Investment Committee during Autumn (November).

Panel Members requested both the Audit Findings and Annual Report to be brought back to the next appropriate meeting.

Action >>>>> Head of Financial Services, Head of Corporate Resources

RESOLVED that the reports be noted.

17. Annual Assurance Report 2017-18

The Head of Corporate Resources introduced the report. He informed Panel Members that the overall adequacy and effectiveness of the Council's risk management systems and internal control environment during 2017-18 was Satisfactory. This was an improvement from last year's Limited Opinion. He told Panel Members that use of Oracle Cloud would have to be successfully implemented as the Council's core financial systems to ensure a positive outcome opinion next year.

The Head of Corporate Resources stated that resources for internal audit were quite tight with the budget process, and Lewisham was in the lower quartile of London Boroughs on the benchmark for audit days.

The Chair thanked officers for the report and asked what they would like to highlight to Members, and was told that although the opinion had improved from Limited to Satisfactory the Council could still be at risk. Following a question from the Chair the Head of Corporate Resources informed Panel Members that all schools had positive opinions, and officers had looked at nine risk areas, all of them were satisfactory.

Carole Murray said she was glad to note the core audits had gone up as that was one of her key concerns. She added that officers needed to concentrate on the core contract management as this might lead to overspend.

Mr Pleace commented that officers ought to know that some audit sections had installed Pentel software and found it was not successful. The Audit Manager responded that they were aware of the risks of implementing a new system and have been working with the provider on the implementation to ensure it works, and hopefully it should be signed off in the next few months. Officers would then monitor the output.

Carole Murray said she was concerned about the number of recommendations listed for Sir Francis Drake school. The Audit Manager's response was that although their performance had been poor during the first half of the year they had improved during the second half. Ian Pleace said he was concerned that segregation of duties and basic control were still an issue and this could be very problematic going forward.

In respect of the core financial audits, Mr Pleace said before they had two Limited reports and now zero assumption, and that it felt very risky. The Head of Corporate Resources said officers were hoping that the installation of Oracle Cloud would address most of the risks and reduce the level of manual controls and workarounds. The Head of Financial Services said officers had worked very hard with Oracle Cloud and although there were some risks at this stage officers were positive of the outcome.

In response to Councillor Krupski's query Panel Members were assured that the information from HR solution that was being fed into the system was accurate. The Head of Financial Services said officers felt things were moving in the right direction, and the second phase would come in place in the Autumn and the system would go live in April 2019.

Following Ian Pleace's concerns about the migrated balances, and data cleansing exercise being a big risk the Head of Financial Services stated that they had cleared out the old data in the correct way and data cleansing continues to ensure that the information inputted is correct. The Head of Financial Services said officers anticipated just smaller problems. Mr Pleace asked that officers update Panel Members periodically when they review the system, and to also have details of balances as a standing report on the agenda.

Action >>>>> Head of Financial Services

Resolved that:

- i. the report be noted.
- ii. officers report back to the next meeting how they would be addressing the issues raised on section 9 of the report.

18. Internal Audit Update

The Head of Corporate Resources introduced the report, and informed Panel Members that the Internal Audit Charter had not changed, and there was not any substantial change to the draft Audit Plan presented in March.

Panel Members raised concerns over the length of time it was taking some managers to address audit recommendations. The Head of Corporate Resources said the responsible manager could be invited to an Audit Panel Meeting to explain the delay. The Chair asked Panel Members to let him know of any area of concern.

Panel Members also highlighted that contract management seemed very weak, and questioned whether the Council was getting value for money. Officers were told they would need to address this issue.

The Chair asked officers to send him a copy of one of the two Limited reports issued since the last meeting, the Catford Regeneration Partnership Ltd (CRPL). He added that in the past he had raised concerns about the number of Directors in the company, (both Council officers). He said he had suggested at least 3 Directors, and hoped this was being dealt with.

Action >>>>> Head of Corporate Resources

RESOLVED that:

- i. the report be noted.
- ii. the Audit Plan for 2018/19 be approved.
- iii. the Internal Audit Charter be approved.

Meeting ended: 8.15pm

Chair