

MINUTES OF THE AUDIT PANEL

Thursday, 22 March 2012 at 7.00 pm

PRESENT: Councillors Michael Harris (Chair), Suzannah Clarke, Jim Mallory, King, Robinson and Webb

Apologies for absence were received from Councillor Philip Peake, Councillor Jenni Clutten, Councillor Alan Till and Paul Dale

1. Minutes of the Last Meeting

RESOLVED that the minutes of the meeting held on 23 November 2011, which was open to the press and public, be confirmed and signed as a true record of the proceedings.

2. Declarations of Interests

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

The Chair declared a personal non prejudicial interest as the Director of a Limited Company.

Richard King declared a personal non prejudicial interest as the Director of a Limited Company.

3. External Auditor's Progress Report 2011/12

Sue Exton, District Auditor, Audit Commission introduced the report. She said that members had requested to be informed of the arrangements that would be put in place to ensure that the 2011/12 Audit report would be delivered on time. She drew members attention to a list of things the Executive Director for Resources and Regeneration and her team, and the External Auditors had agreed following a meeting to ensure the process goes smoothly.

Sue Exton added that as a result of additional work that the External Auditors had to do the Council was charged extra fees. She said the Interim Audit was underway and would be completed by the next Audit Panel meeting. Sue Exton said that they were meeting with the Resources team regularly to monitor progress against the final accounts closedown plan. These meetings would ensure that potential problems would be flagged up earlier in the process, and would give parties time to deal with them. It was noted that the value for money conclusion should be completed within the next few months.

Geoffrey Banister, Audit Manager informed members that Lewisham received income from grant paying Departments and the Audit Commission had to review and certify them. He added that there were conditions attached to these grants and the Council has to show that they have met these conditions otherwise the funding would be at risk. He informed the Panel that there had been some reduction in the number of grant claims that needed to be certified for the Council.

Councillor Mallory asked why the fees charged for this year's grant claims were £30k higher than last year's even though the number of claims had dropped. It was noted that there were a number of slippages and delays in the paperwork, caused by government departments. Geoffrey Banister informed members that Lewisham received income from grant paying Departments and the Audit Commission had to review and certify them. He added that there were conditions attached to these grants and the Council has to show that they have met these conditions otherwise the funding would be at risk. He informed the Panel that there had been some reduction in the number of grant claims that needed to be certified for the Council.

Councillor Mallory asked why the fees charged for this year's grant claims were £30k higher than last year's even though the number of claims had dropped. It was noted that there were a number of slippages and delays in the paperwork, caused by government departments. Geoffrey Banister informed members that he had done a successful workshop for grant officers last Spring and would be doing the same this year.

Sue Exton informed the Panel that following plans for the Audit Commission's work to be externalised, they would be transferring to Grant Thornton (UK) LLP, from 1 November 2012. She added that the Code of Practice would remain the same and the 2011/12 accounts would be completed under the current Audit practice. Councillor Mallory said he was concerned that fees had continued to go up even when budgets were being cut. He asked whether the Council would have a chance to examine the service they have been provided to ascertain whether it was getting value for money. Sue Exton informed the Panel that the fees would continue to be set by the Audit Commission, but under the new contract fees would likely go down by about 40%. She added that the 2011/12 fees were reduced by 10% and there would be a further rebate. Councillor Mallory requested that the 'how to' guide for Chairs and Board members of public bodies be circulated to Panel members. It was agreed that this guide together with the practical guide on how to undertake effective pay benchmarking would be circulated to Panel members.

RESOLVED that the progress report be noted.

4. Update on 2011/12 Closing of Accounts and External Audit

The Head of Business Management and Service Support introduced the report. Councillor Mallory raised concerns about some of the areas which had been brought forward in the timetable especially for schools. The Head of Business Management and Service Support informed the Panel that officers have a very good working relationship with the schools and they would try to keep within the timetable. Councillor Mallory asked what would be done about the review of PFI schools and was told that the information would be sent to the Auditors sooner to make them aware of what would be going into the accounts. The Head of Business Management and Service Support said that this was a complex area but officers intended to prepare the accounts before the June Panel meeting.

RESOLVED that the report be noted.

5. Internal Audit Update and Plan

The Interim Head of Audit & Risk introduced a report of three parts; the progress report, the performance of the Internal Audit Contractor and the Audit Plan for 2012/13. Councillor Mallory said that he was concerned that the Internal Audit contractors were not meeting the agreed targets. He added that earlier in the financial year the situation had been the same and it seemed as if the service was getting worse instead of improving. Councillor Mallory said that he was concerned that the shortfall would never be addressed in time for the deadline. He enquired whether a penalty would be levied. The Interim Head of Audit & Risk said that the Council had not yet considered penalties, but would be putting down clear ultimatums in April and discussing priorities of the remaining plan that were to be delivered.

The Chair said he understood the contract was renewed recently and sometimes slippages could occur during renewals. Councillor Mallory said if there was not any immediate sanctions then an improvement plan should be put in place. The Interim Head of Audit & Risk said that monitoring was ongoing, and an annual improvement plan is a condition of the contract and would be put into place before the next report to the Panel. Mike Robinson said that although he recognised that the Director of Internal Audit (Contractor) had assured members that he would put things right, the performance was still poor. He added that there were assurances earlier in the financial year that things would be put right by the year end, but improvement had not been made. Mike Robinson said that with the impending budget cuts over the next 2 years it was doubtful how improvement would be made.

The Chair said that he had also noted that the figures were worse than the previous year, with a lower standard achieved. The Director of Internal Audit (Contractor) said it was his responsibility to deliver the plan and he would work on this. The Executive Director for Resources and Regeneration said that a similar discussion had been held with the contractor prior to the Audit Panel and she had raised similar concerns with the Director of Internal Audit (Contractor), and to his credit he had not made any excuses but had given assurances that their performance would improve in the coming year and they aimed to deliver the plan. The Chair said although the Panel had been assured that additional resources have been provided to ensure the plan was delivered, something unexpected could happen which might delay things, as in the past.

The Director of Internal Audit (Contractor) said that he was aware that they needed to plan better for the future, but because there have been a lot of restructuring within the organisation, this had impacted on the plan. Following further discussion the Executive Director for Resources and Regeneration said she understood members' concerns, and highlighted that over the last year, officers had to deal with both internal organisational changes, plus the new IFRS systems and this had all impacted on the end result of the audit, but if performance did not improve, the ultimate sanction of issuing default notices and terminating the contract would be initiated.

The Interim Head of Audit & Risk informed members that as requested at the last meeting, an update for Direct Payments and Homecare has been included in the

report, plus other Directorates which had overdue recommendations had been included in appendix 3 of the report. Members asked why there was no representative from the Children and Young People Directorate to explain to the Panel why some of their recommendations had not been adopted. The Interim Head of Audit referred to the report update on the position regarding schools recommendations and it was noted that someone would be attending the next meeting of the Panel if improvement was not seen. The Interim Head of Audit & Risk informed the Panel that the Finance Shared Services Manager was at the meeting to update members of developments that had taken place since their last Audit.

The Finance Shared Services Manager said that since the recommendations were agreed six months ago things had progressed. He said that the Council had invested in the Procure to Pay system which would eliminate most of the concerns that were raised by Internal Auditors, namely:

- all current monetary processes would be eliminated.
- paper would be taken out of the system, and officers would ensure all communications supplies are backed up by official orders in the system.
- if a purchase order is not raised there would be no payment.
- officers would enforce that all suppliers use electronic system.
- all inefficiencies in current payments would be eliminated

Members asked how late the report was and were told that November was the target date. The Interim Head of Audit & Risk said that, following reminders, officers should have liaised with Auditors to ensure they were aware of the challenges officers were faced with. Mr King said that if these recommendations were high priority what had been achieved in the interim. The Finance Shared Services Manager said that officers were reviewing their target for implementation, and once the new system was in place any deficiency in the current system exposing the Council to risk would be addressed.

The Finance Shared Services Manager said that all payments now had to be authorised by a Head of Service or budget holder. The Chair asked if any of the high risk recommendations had been addressed. The Finance Shared Services Manager said that the original implementation timetable was unrealistic, and informed members that the current system did not expose the Council to risk, but was costly to run. Mr Robinson asked whether officers were implying that they would tolerate the current risk because when the new system is in place it would address it.

The Executive Director for Resources and Regeneration said that this project was not new to Lewisham; officers were aware of it and had decided to adopt it sometime ago, but the decision was on hold because of several factors including resources. She added that once it was in place the Directorate would have control of what was being ordered across the Council and officers would be able to identify where any inefficiencies were located. Mr King asked if the schools would buy into this system. The Head of Business Management and Service Support said that they can't be forced to, but they can if they so wish.

The Head of Personnel and Development informed the Panel that since their last update on Occupational Health Referrals, work had been underway to digitalise all

the Council's personal files. He apologised for not notifying Auditors on time. The Head of Personnel and Development said that storage space within the Town Hall would become very limited, therefore paper files would need to be scanned and digitalised. He added that some parts of staff personal files would need to remain on paper to serve as back-up.

The Chair said that he was concerned that now that the Council was facing its biggest cuts this new system was being introduced. The Head of Business Management and Service Support responded that this was being done now as the technology was not available before. The Executive Director for Resources and Regeneration added that this was not the first time officers were going through this process in Lewisham; the only difference was that the current system was more sophisticated than the last one. The Executive Director for Resources and Regenerations said that in the past some of the data was illegible once they have been scanned; some could not even be retrieved.

Councillor Clarke said that she understood some of the complexities of the situation as she had some similar experience. She asked whether there were examples of good practices. The Executive Director for Resources and Regeneration said that the Council as a whole had been using digital systems for the past five years but the Human Resources system was both different and difficult.

Councillor Mallory asked whether after a certain period some of the audit recommendations become obsolete, because he had noted that the target dates for Community Mental Health has already changed five times. Members were informed that if recommendations were not fulfilled the next audit of that area would pick them up until completed. Members requested that the officer responsible for SLAM should attend the next Audit Panel to explain the reasons for the delay, as with the Homecare recommendations, if still overdue.

Councillor Mallory asked, in terms of personal budgets, how the Council could determine whether there was a conflict of interest when vulnerable people were being asked to decide how to spend their money. The Interim Head of Audit & Risk said that this information would be included in an audit of this area to be put in the Plan for 2012/13. Members said they were concerned that some of the companies seemed to be telling the Council what to do instead of the other way round. It was noted that a corrective action plan has been put in place to address this, and officers had written to these companies with the internal audit recommendations. It would be up to them if they accepted the recommendations. Recommendations, those reported to the Panel, had also been drawn up for officers to act on.

The Chair commented that members were concerned about Lewisham Homes. The Head of Law said that the Council only has a contractual relationship with Lewisham Homes which was regulated. She added that this contract had to be reconsidered for tendering.

The Interim Head of Audit & Risk informed members that Auditors had met with all Heads of Services to ensure that they understood individual service risks as part of preparing the annual internal audit plan. The Chair asked whether there were proper processes in place for corporate credit cards. The Head of Business

Management and Service Support said that significant controls have been put in place to prevent misuse.

The Chair then asked when this process was last audited, and was told 2 years ago. The Executive Director for Resources and Regeneration said that new systems have been put in place and although staff members have been disciplined for misuse, corporate credit card usage was very useful for small expenditure, and the Directorate would not want to get rid of it. The Head of Law said that a report on Members' expenses went to the Standards Committee 2 years ago. The Chair asked if a registry of Senior Officers' interests was available on the website. The Head of Law said that she was not sure they were published but they were on file and available for public consultation.

Mike Robinson asked who would decide whether the Corporate Plan was fit for purpose. The Interim Head of Audit & Risk said that the process was for review by Heads of Services and then Executive Directors with their Management Teams. The plan is then put to the Internal Control Board and Audit Panel with the formal responsibility resting with the Executive Director for Resources and Regeneration as Section 151 officer to sign it off. Mike Robinson said that it would be useful if additional information was included in the plan about major corporate risks and how officers intend to shift resources to manage these risks. He also asked when the Risk Register went to audit, and why this was not included in the report. The Interim Head of Audit & Risk said that he would do a wider mapping that would address Panel members' concerns.

RESOLVED that the report be noted.

6. Anti Fraud and Corruption Update

The Interim Head of Audit & Risk introduced the report. He highlighted that that work was ongoing and to date the team had more referrals and cases than the previous year. The team was concentrating on more serious cases rather than volume, and this was putting more demands on staff in the Legal Section. The Interim Head of Audit & Risk informed members that there was no current urgency for transfer of staff as the Department for Works and Pensions has confirmed that Benefit Investigators would continue to be employed by local authorities beyond 2013.

The Interim Head of Audit & Risk said that officers were being proactive rather than reactive and although more training would be necessary, the Council was getting value for money. Councillor Mallory said that some of these success stories outlined in the report should be communicated to the public. The Interim Head of Audit & Risk said that all successful prosecutions are reported on the Council's website and there was an ongoing poster campaign. The Chair said that Panel members were expecting to see a report from Lewisham Homes at the next Panel meeting.

RESOLVED that;

- i. that the report be noted.
- ii. that a report from Lewisham Homes be brought to the next Audit Panel.

7. Exclusion of the Press and Public

RESOLVED that under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraphs 3, 4 and 5 of Part 1 of Schedule 12(A) of the Act as amended by the Local Authorities (Executive Arrangements)(Access to Information) Amendments (England) Regulations 2006:-

The following is a summary of the items considered in the closed part of the meeting:

8. Closed Minutes

The Minutes of the last closed meeting was agreed.

9. Update Report to the Audit Panel on the Payment of Consultants & Senior Interims

RESOLVED that:

- i. the report be noted.
- ii. an open update be brought to the Panel in November.

Meeting ended: 9:30pm.