

MINUTES OF THE AUDIT PANEL

Thursday, 20 March 2014 at 7.00 pm

PRESENT: Councillors Michael Harris (Chair), Philip Peake (Vice-Chair), Ami Ibitson, Mark Ingleby, Jim Mallory, Dale, King, Robinson and Webb

Apologies for absence were received from

7. Minutes

RESOLVED that that the Minutes of the meeting of the Panel held on 20 November 2013, which was open to the press and public, be confirmed and signed as a true record of the proceedings, subject to the following:

para 5.7, last sentence delete 'steps' to read "The Interim Head of Corporate Resources confirmed the position is being closely monitored and assurances were given by the contractor that sufficient resources were in place to ensure the timely completion of the Plan, subject to no significant delays on the Council side.

8. Declarations of Interests

None.

9. Update on 2013/14 Closing of Accounts and External Audit

The report was introduced by the Group Finance Manager-Core Accounting. He told Panel members that in previous years the Pre-Audited Statement and the Audited Statement of Accounts had been presented to the Audit Panel in June, but because of the elections, and new Council members' induction, there would not be sufficient time to fit in an Audit Panel in June. Therefore the proposal was for the next Audit Panel to take place on 16 July. He added that the Audited Statement would be presented to the Audit Panel in September as usual.

The Chair said he could not understand why an Audit Panel meeting could not be scheduled in June, as it was important for Panel members to scrutinise the Pre-Audited Statement of Accounts before the September consideration of the audited accounts. Panel members were informed that there was no requirement under the code for elected members to scrutinise the Statement prior to it being signed off in June, but that it was best practice to do so. The only requirement was for the Executive Director for Resources and Regeneration, as the Section 151 Officer, to scrutinise it prior to the June sign off.

Panel members were informed that it had been decided to postpone the Audit Panel and Public Accounts Select Committee meetings until proper financial training has been completed by newly elected members to equip them for their new roles.

Paul Dale asked why Lewisham could not arrange training before the June meeting of the Audit Panel, as other Councils had managed to do so. Councillor

Mallory stated that as Chair of the Standards Committee he had suggested that it was necessary to ensure that training and induction was completed before committee duties commence, and he had based this decision on past experience. Councillor Peake said he welcomed that decision but did not see why it should affect the Audit Panel cycle.

Panel Members stated that the AGM was on 11 June, and there should be sufficient time for members to be trained before an Audit Panel meeting later in June. The Head of Corporate Resources said that he would discuss this with Governance officers to address Panel members' concerns. The Chair recommended that elected members should consider the Pre-Audited Statement before they are submitted to Grant Thornton for auditing. This was agreed.

Mr Dale asked officers if they had taken into account CIPFA's Guidance on investment property, and asked whether the distinction had been made between operational and investment properties. The Group Finance Manager-Core Accounting said that properties listed under investment were only being used for investment purposes, and officers usually discuss this issue with the external auditor and make a judgement. Mike Robinson said that this issue would only be relevant if the figure would materially impact on the Accounts.

The Chair referred to recommendation 1 of the action plan in the 2012/13 Audit Findings Report by Grant Thornton, and stated that Assets and Asset Registers had always been an area of concern with the Panel over the 4 years he had been Chair. Councillor Ingleby stated that maybe this concern could be addressed through proper training. The Chair said that these issues needed to be addressed quickly, as it would be unacceptable if the Council could not have effective valuation expertise to categorise the Council's assets properly.

The Chair asked officers about recommendation 6 of the Grant Thornton action plan on disclosures within the Annual Governance Statement, and the Head of Corporate Resources said that officers were looking at improving this. They would seek to present a shorter AGS with the 2013/14 draft financial statements.

RESOLVED that

- i. the report be noted.
- ii. a meeting of the Audit Panel be arranged in June to consider the Pre-Audited Statements before they are sent off for auditing.

10. Grant Claims Certification Report

The report was introduced by the Director of Grant Thornton, Darren Wells. It was noted that the report gave a summary of Grant Thornton's overall assessment of the Council's management arrangements in respect of the certification process and drew attention to significant matters in relation to individual claims. Grant Thornton certified four claims and returns for the financial year 2012/13 relating to expenditure of £326 million.

Panel members were informed that the report also highlighted some issues identified and a significant one was with the arrangements for producing the Teachers Pensions. Panel members noted that the recommendations on page 21 of the report had been accepted by officers.

The Chair asked whether other councils had green ratings in their certification report. It was noted that some had green ratings but Grant Thornton were unable to say how many.

Mr King asked why there were so many problems related to the Teachers' Pension return, and was told that it had been a major concern and responsibility had been moved from the previous section, as there were evidence of poor practice, and it was now back in the payroll section. Mr King said he was surprised, as this issue had not been made clear within the audit reports, and Panel members have been told in previous years that BACs had been improved.

Mike Robinson said that he could remember when he started about two and a half years ago when this issue was reported, and Panel members were told that this had been rectified, but now it had come to light there were still some areas where processes were still lax.

The Chair said he was concerned, because in the current climate of cuts, team changes and service reconfiguration unless this issue was dealt with urgently, six months down the line with fewer staff and more work there would be further slippage. The Group Finance Manager- Accounting and Capital informed Panel members that this was a one off, and would not happen again as officers were more focussed. The Chair asked if members could be provided with figures of how many London Councils had green ratings because if other London Councils could achieve this, Lewisham should be aspiring to do the same.

RESOLVED that the report be noted.

11. Presentation by Grant Thornton on their National Report on Financial Resilience of Local Authorities

Panel members received a presentation from Jamie Bewick on the following:

- Third year of financial health checks.
- Report summarises the issues and emerging good practice
- Reviews of 138 local authorities (40% of councils in England)
- Review covered the delivery of 2012/13 budgets and 2013/14 financial planning

Panel members were informed that, overall, local authorities were delivering against their financial plans. However, the challenges were increasing, and some improvements in the last survey have reversed this year. It was also noted that a small number of authorities now have insufficient arrangements to ensure financial resilience. Panel members noted that Authorities would need to work hard in the following key areas to stay in robust financial health:

Strategic Financial Planning

- Improve scenario planning and use of sensitivity analysis on key assumptions in financial models.

Financial Control

- embed the changes resulting from reductions in finance staff and the associated increase in financial responsibilities of service managers and budget holders.
- improve the way savings programmes are managed.

Financial governance

- ensure the appropriate frequency and detail of reporting savings programmes to members.

Key Indicators of financial performance

- reduce absenteeism

In conclusion it was noted that authorities need to have

- good practice examples
- good practice checklist

Paul Dale asked whether Grant Thornton had deduced that the quality of forecasting would likely change to red. The Chair added that this was because the next 4 years would be very challenging for the Council, as proposed savings had nearly doubled from £56m to around £104m. Jamie Bewick said that this information was not available when they did the audit.

Councillor Mallory said that he was surprised any Council managed to get a green rating, particularly those facing the challenges Lewisham was. Jamie Bewick said that they were aware that Lewisham was financially challenged, and stated that Sheffield, with similar challenges had a good rating. He added that Grant Thornton has a Good Practice Checklist and the Council could use this to do a self assessment.

The Chair asked whether there were other good practices examples that could apply to Lewisham that Panel members and officers ought to know about. Darren Wells said he could not think of anything at present, but if there was something he became aware of he would let Panel members and officers know. Councillor Ingleby asked for the update to this presentation to be circulated to Panel members. This was agreed.

Action >>> JB Grant Thornton

12. The Internal Audit Update and Plan

THE INTERNAL AUDIT UPDATE AND PLAN

The report was introduced by the Head of Corporate Resources, who informed Panel members that it was in three parts; the general progress update, the Audit Plan for next year and the Audit Charter. Panel members noted that the 2012/13 audit plan was completed. Panel members also noted a summary of the status of the 2013/14 audit plan as at end of February 2014. The Head of Corporate Resources informed Panel members that since the last Audit Panel meeting all medium and high risk recommendations have been agreed by managers, and officers would continue to follow up high risk recommendations. Also that the Council would, by mutual agreement, be taking back the internal audit service from Baker Tilly at the end of June 2013.

Mr King asked why the contractors had not completed the plan again this year after their undertaking at the last Panel to do so. The Head of Corporate Resources said that they had agreed to prioritise this work and would aim to complete it by end of June. Chris Harris, the Director for Baker Tilly recognised that the position was again behind plan and said as they would not be doing the 2014/15 audit for the Council, they intend to use their existing resources plus some additional resources to ensure that the 2013/14 work was completed at the end of June. Chris Harris assured Panel members that they would use their best resources to ensure the work was completed effectively. The Head of Corporate Resources said that Council officers and the Baker Tilly auditors would work together to achieve this.

David Webb asked if officers intended to complete the 2014/15 in 9 months instead of the usual 12 months, asking if they would be starting very soon. The Head of Corporate Resources said that officers would be working out the details between now and June. He added that Lewisham Homes would not be included in this work as they had already withdrawn from the arrangements and this would result in less work for officers. Mr Webb asked officers if they had discussed with Grant Thornton whether they would be able to deliver this work.

The Head of Corporate Resources said that officers had not yet discussed the details but were keeping Grant Thornton sighted on progress with the internal audit plan through regular liaison meetings. Chris Harris, Baker Tilly said they have more resources than they needed to deliver the plan by end of June, and they were confident they would deliver it. Mr Webb stated that Panel members had been given assurances in the past, but were yet to see it being delivered. Mr Dale asked how many audit days they were proposed for 2014/15, and was told 690 days. Mr Dale said this equated to less than 4 people, and raised the concern that this may not be sufficient.

The Head of Corporate Resources said that a lot of boroughs have reduced their audit functions, and that he would use his best judgement to allocate time to areas of high risk. He added that how the Council remodels the services would present further challenges. These are the factors they now need to work through.

Mr Robinson said getting this work done would be crucial for the Council, as it would count in the Annual Governance Statement. He added that it would be useful for officers to look at what other London Boroughs were currently doing. Mr Robinson said that he was concerned that the days have been reduced to 690, especially when there were other cuts in the pipeline. He added that it would be very difficult for Panel members to say what the impact would be from an external

point of view, as they would not know whether critical work was being dropped because of lack of resources. He requested that an evaluation be included in a future report to the Panel.

The Head of Corporate Resources said that he noted the Panel's concerns and would work with the Executive Director of Resources and Regeneration. He added that Panel members have the additional details in the Audit Plan this year, to see more about which risk areas officers would be looking at. He added that 2014/15 would be a year of change and learning as officers try to address previous performance issues and Panel members would be kept informed. Councillor Mallory asked whether this information could be in the report to the June meeting, as he was worried that it could be later in the year before Panel members were informed, and by then it would be too late. The Head of Corporate Resources said that Panel members would be given an indication of what the future service arrangements will be at their June meeting.

Mr King said that the level of internal resource when taken into consideration with previous reports on financial controls and the recent amber classification the Council received, the combination of the two was a cause for concern. The Head of Corporate Resources said that officers do 16 key financial audits annually and the condition of these had steadily improved, except for fixed assets, and officers were looking at more management assurances as part of a wider approach. The Head of Corporate Resources said that officers were aware the challenges, but the status quo could not continue and they are mindful of the risks involved.

Mr Webb asked whether current staff from Baker Tilly would be the same staff supporting the in-house service, and was told they would be at the point of transfer. Mr Webb then said the only change then would be that the Council would be managing the Baker Tilly staff. This was confirmed.

The Chair said that on looking at Appendix 1 of the report he was concerned to see some of the audits that the Panel have had concerns over in the past had been cancelled. Officers stated that some of the cancelled work had already been completed in previous audits, and another was being deferred pending the recommendations of the consultancy review being implemented. Panel members were advised that in future there would be a lot of integration work resulting in reorganisations. It was noted that Panel members could get a proper view of the new arrangements in the 2014/15 plan.

Mr King asked whether a response had been received from ISS Facility Service Ltd as stated in appendix 2 of the report. Mr King added that this update was overdue and seemed to have been ignored again. The Head of Corporate Resources said that he would highlight any update to Panel members at their next meeting, but if the issue has still not been addressed by then he would invite the Head of Service to the meeting.

Mr King said that he had observed that for the list in appendix 3 some of the target dates have been changed 4 times, and asked why this had been allowed to continue. Officers reported that the issue on payments for looked after children was an old one that seemed to be on going, and for Grinling Gibbons school there was an issue with financial tenders. If the school had not followed the right procedures for contracts over £10k, then this issue would be rolled forward. Panel

members also noted that a library contract was awaiting the tenant's signature and this was causing some delay.

Mr Dale said that he had observed that one of the issues about internal audit was that managers do not take it seriously, and it seemed to be a cultural issue embedded in the organisation. The Internal Audit manager said that things had improved as internal audit were being stricter now. The Head of Corporate Resources said that he would agree there were challenges but this was not universal, and on looking at the table there were a number of reviews with low numbers of recommendations carried over each of which had specific reasons for doing so.

The Chair said that he had observed that there were fewer recommendations overdue now compared to 2 years ago. He added that the Head of the Community Libraries Contract should have been brought to the Panel to address this issue. The Head of Corporate Resources said he would be asked to attend the next meeting if this issue had not been addressed.

Councillor Ingleby said that he would like to thank the Head of Corporate Resources for the table and information on the maintenance of Assets & Premises 2012/13, on page 46 of the report, and would request that this information is discussed at the Public Accounts Select Committee. Councillor Ingleby said that looking at the things that have gone wrong he thought this information should be given proper scrutiny.

Mr King said that it seemed as if this was a case of doing sub-standard work with poor controls. The Head of Corporate Resources said that officers doing the work were following their own procedures, but unfortunately the procedures were inadequate. The Chair asked if the second issue raised under Key findings on page 44 have now been addressed, and was told they had. The Head of Corporate Resources said that the Transformation Board was responsible for ensuring all the back offices function changes are integrated and effective.

Mr Dale asked how Auditors did not give a 'no assurance' opinion to the Housing options service's assessment. Andrew Hamilton, Audit Manager, Baker Tilly stated that was a particularly difficult audit as there had been a change in management and the new manager could not provide a lot of the essential information the auditors needed. This prevented them from continuing the work, and they had to stop. Mr Dale asked if there would be a follow up action. The Head of Corporate Resources said there would be an In-house follow up.

Mr Dale said he could not see any reason why this service had been graded limited, because nothing had been done right. Andrew Hamilton said he assumed that both limited and no assurance were equally bad in terms of the impact to the services. Mr King said that he would say no assurance was worse than limited. He added that if he were a manager and he received a no assurance he would be more worried than if he had received a limited scoring. The Head of Corporate Resources said that during the follow up he would ensure this issue was highlighted.

Referring to Appendix 6 of the report, Mr King asked how often an audit of insurance processes was done, and was told every 3 years. Mr King also asked

why audit officers were looking at the local security and usability of SharePoint 2010 and was told that this was to ensure the upgrade was practical and worked effectively given delays to date.

Mr King said that he was concerned that some sentences in the detail of the audit plan appendix were incomplete without anyone noticing. Mr King asked if officers had read through the final version. The Head of Corporate Resources apologised for the errors and confirmed that officers have worked on the appendix in detail and added that he would work to ensure such errors do not happen in future.

The Internal Audit contract manager gave Panel introduced the Internal Audit Charter. It was noted that the Charter would replace the Council's previous Internal Audit Strategy and Terms of Reference. The Chair asked who the target audience was and was told that it was a public document. Panel members were informed that the Charter included reference to anti-fraud work, and the definition of the Board was a requirement, and the Board within the Charter was the Audit Panel.

The Chair stated that it was important that within the Charter it was spelt out that responsible officers would be brought in front of Audit Panel members to respond to concerns that have not been addressed. Officers advised Panel members that this would be included in the internal audit protocol. The Chair said that the Charter should ensure there was transparency within the Council's Audit process. The Chair said it would be useful if an introduction was done explaining what officers intend to do; how it would work, and this should include the name of the Head of Corporate Resources at the bottom of the page.

Councillor Mallory asked who would be politically accountable if there was a problem. The Head of Corporate Resources outlined the place of the Audit Panel in the Constitution. The Head of Internal Audit said he could put a structure chart within the Charter. The Chair said this would be useful and would need to be spelt out.

Mr Robinson asked whether the Charter followed a prescribed framework, and was told yes. Mr Robinson said he would have preferred a summary with additional information in appendices, as a shorter functional document could prove to be a useful guidance. Councillor Mallory said an executive summary written in plain English would be the obvious choice.

The Chair informed the Panel that a one page summary at the beginning that included how to raise concerns as a Whistle Blower would be useful for both employees and members of the public. This should also refer people to the section 151 officer. The Chair then asked who would agree the proposed changes to the Charter, and was told it would be done at the next Audit Panel meeting, likely to be in June.

The Chair commented that he was glad to see the Risk and Assurance Mapping, and the Internal Audit Plan in the format presented on the report. Officers confirmed that this format would also be used during the next Administration, and Audit Panel members would receive this information twice every year. The Chair also stated that the Reporting Framework for Risk Management was a very useful tool.

Referring to the Risk Assessment Matrix, Mr King asked whether there was a way for officers to identify a potential risk appetite. The Head of Corporate Resources said that officer would be able to do so by measuring the distance between current performance and the target. Mr King suggested that this information be explained more clearly within the document.

Mr King asked what action officers would take if one of the Council's key partners did not keep a risk register. The Head of Corporate Resources said that this was a key factor of the Council's governance arrangements and the issue would have to be addressed. Mr King said that other parts of the organisation might not be as mindful of this importance and it would be an advantage to make this very clear in the document. Mr King also said that he was unable to read most of the information on page 85 of the report, and Panel members should be able to read the information. The Head of Corporate Resources said in future a word document, not system report, example would be used.

RESOLVED that the report be noted.

13. Anti-Fraud and Corruption Update

The Head of Corporate Resources informed Panel members that the report was a routine update to be reviewed in June. The Anti-Fraud & Corruption Team Manager highlighted the appendix benchmarked Lewisham nationally and against other London Boroughs. The national figures showing the total cases detected in 2012/13. It was noted that nationally the number of detected frauds have fallen by 14% since 2011/12, and the value by less than 1%. Another diagram showed how Lewisham's figures compared with other London Boroughs. It was noted that Lewisham ranked fourth in the number of cases detected, but officers did not know who the other 3 authorities were nor do they have any information about them, in terms of their size or the size of their counter-fraud teams.

The Anti-Fraud & Corruption Team Manager informed Panel members that Lewisham had a lower value of fraud detected, and said that this might be because they were caught earlier or the Council might take on low value fraud. It was noted that different boroughs value fraud differently, as it was not easy to quantify fraud. Panel members noted that Housing Benefit was experiencing a lot of changes, including a reduction in the number of investigators.

Panel members noted that Housing Stock fraud was one of the problematic areas. It was hoped that the figures would improve in the future. It was also noted that 3 Fraud Awareness sessions had been delivered by A-FACT to Lewisham Homes, two sessions to SELCHP, and a session tailored to the Council's Human Resources Service. The Chair thanked officers for the report.

RESOLVED that the report be noted.

On behalf of the Audit Panel Councillor Mallory thanked Councillor Harris, outgoing Chair of Audit Panel for his time and dedication to the Panel over the last four years.

The meeting ended at 9.50p.m.

