

MINUTES OF THE AUDIT PANEL

Tuesday, 20 June 2017 at 7.00 pm

PRESENT: Councillors Jonathan Slater (Chair), Mark Ingleby, Maja Hilton, and Mr Ian Pleace

ALSO PRESENT: Carole Murray, prospective Independent Audit Panel Member.

Apologies for absence were received from Councillor Helen Klier, Councillor Susan Wise and Paul Dale

26. Election of Chair and Vice Chair

RESOLVED that

- i. Councillor Slater be appointed as Chair of the Audit Panel for the 2017/18 Municipal year.
- ii. that the appointment for Vice Chair be deferred to the next meeting.

27. Minutes

The Chair welcomed Carole Murray, prospective Independent Panel Member, who was observing the meeting.

Minutes 23

The Head of Corporate Resources said as the Audit Plan is to be agreed in September this year officers thought there was enough time to get it completed and did not think it necessary to submit a draft at this time. Ian Peace said the Panel had agreed to do a dry run to ensure things would go smoothly next year hence the draft was to be sent to Panel Members for their comments before the June meeting.

Darren Wells said he would send a copy of their publication on consultants to Panel Members as soon as possible.

Action >>>>> Grant Thornton

The Executive Director for Resources and Regeneration said a report on employment profile would be going to Safer Stronger Communities Select Committee which would provide information on consultants and agency staff. She said the Head of Human Resources would bring a report to Audit Panel in September.

Action >>>>> Head of Human Resources

New Bermondsey CPO

Panel Members were informed that the findings of the investigation would be reported to Council and a decision taken by Council. The Head of Corporate Resources said sufficient controls have been put in place that were reassuring.

RESOLVED that the minutes of the meeting held on 21 March 2017 that was open to the press and public be confirmed as an accurate record.

28. Declarations of Interests

None received.

29. Audit Plan 2016-17

Darren Wells introduced the report. He explained the breakdown of the report. Darren Wells informed Panel Members that external auditors would need additional information on the New Bermondsey CPO before the plan is signed off. He explained that if the investigation had not been finalised before the deadline the audit conclusion would have to be deferred. He added that as part of the value for money conclusion Auditors have to determine any risk that is significant and they thought this investigation had raised potential issues within the governance and decision making process. He emphasised that cost of the investigation was not an issue but there would be concerns about the value for money conclusion if weakness was identified within the governance arrangements in the Council.

The Executive Director for Resources and Regeneration said some recommendations which might have some impact on the Council's governance and decision making processes might come out of the investigation and therefore the plan could not be agreed until the investigation is completed. The Executive Director for Resources and Regeneration said £1/2m had been provided for the investigation and additional fund could be provided from the emergency funds if necessary. She added that the external auditors had no issue with the financial part of the review, but they did not think the value for money in respect for this issue had been cleared.

Ian Pleace asked Darren Wells to explain the walk through process and was told that external Auditors would want to show they understand how the system had been designed without testing the operation of each control. They walk through and if they find any issue during this process this would be highlighted.

RESOLVED that the report be noted.

30. Pension Fund Audit Plan 2016-17

Darren Wells introduced the report.

RESOLVED that the report be noted.

31. Pre-Audit Statement of Accounts 2016-17

The Acting Group Finance Manager-Core Financing introduced the report and informed Panel Members that officers had been doing a dry run over the last 2 years to get used to the new timetable.

The Head of Financial Services informed Panel Members that the audits were underway and officers had been engaging with Grant Thornton. He said the public inspection of accounts which should last for 6 months would start the following day and notification would be on the Council's website. Mr Pleace asked whether the full assessment would be reported at the September meeting and was told by the Executive Director for Resources and Regeneration that it would be reported to the Audit Panel in September before going to Council the same month.

Councillor Ingleby asked about the Council's involvement in the management of this process and was told by the Head of Corporate Resources that the Council was not in the residual scheme but was part of the scheme, and have a commitment to work with them.

Pensions Fund

Panel Members noted that this report would be going to the Pensions Investment Committee in a few days. It was noted there had been changes in the memorandum, and there had been a big shift in investments performances as they had been flat in 2016 but had gone up 20% in 2017. Panel Members were also told that there would be an evaluation into how investments were made now that the membership had been reduced from 7000 to 6000 due to retirement. This had resulted in a negative cash flow. Officers were now looking to diversify investments.

Mr Pleace asked whether there was hedging taking place and was told two big drivers in equity performance were the European movement and the devaluation and restatement of the sterling.

Mr Pleace asked whether this was a good time to engage in active hedging and was told that this would be discussed at the Pensions Investment Committee meeting on Thursday. The Head of Corporate Resources said the advice had always been not to do active hedging but officers would ask again on Thursday.

Councillor Hilton asked whether the Council were trading in US Dollars because they were long term investments and was told we were currently buying products and investing in Sterling.

RESOLVED that the report be noted.

32. Annual Assurance Report

The Head of Corporate Resources introduced the report informing members that the overall opinion received was limited for corporate audit, and satisfactory for schools. He said officers did not deliver the whole plan as intended and recognised that more work would be needed going forward. Officers were aware of the gaps to be addressed before next year. He added that the challenging areas were similar to last year's. The Head of Corporate Resources informed members that officers needed to do self assessment in terms of the service standards. He said he was aware of the concerns about him still having some audit responsibilities but this had now been addressed as the Audit Manager have direct access to the Chair of the Audit Panel.

Councillor Ingleby asked if more had been done this year due to the impending changes to the timetable.

The Audit Manager stated that more work had been accomplished this year and only a few had been deferred to 17/18, as the process was being tried out and officers anticipated the change. Councillor Ingleby asked if officers were now moving towards income generation and whether the newly appointed Income Generation Officer would do this. The Executive Director for Resources and Regeneration said it was still early days, but members would be kept informed.

Panel members said they noted that a number of recommendations for the ICT function had been implemented, with the governance intention stronger. They asked if officers were confident that the service would be delivered. The Audit Manager said that work was in progress and the PFIs for the contract had been sent and there was a risk included in case there was a crash. It was noted that disaster recovery had been put in place, and the last time there was a crash recovery was established in 24 hours.

Carole Murray said she was initially concerned that the Head of Audit is also the Head of Corporate Resources, as both roles should be separate. She was also concerned about the accounts payable and received, and the high number of recommendations for some areas. The Head of Corporate Resources said officers had moved from no assurance to improving and they were working hard at this. It was noted that the financial systems e.g. separation of duties, and invoices not been sent out on time would all be addressed shortly when the new oracle system is in place. The Head of Corporate Resources went on to describe to Panel Members how risk management works within the organisation.

Mr Pleace said members had raised concerns in the past about segregation of duties in the Finance Department and they would need to be assured systems had been put in place to address this. The Head of Financial Services said officers were currently looking at their practices and when the new system is in place Payroll and HR Services would have stronger control. He added that officers were actively reviewing this and discussions had been had with Heads of Services, and the finance team feel assured that this issue would be addressed very soon.

Mr Pleace asked when the new system would be in place, and if the Audit Panel needed to do more to assist officers. The Head of Financial Services said officers were looking at making the transition to oracle next year and thought the Panel would play a role. It was noted that officers were currently in discussion with the company and a report would be brought to the Audit Panel soon.

RESOLVED that the report be noted.

33. Internal Audit Update

The Head of Corporate Resources introduced the report, and informed the Panel that their approval was needed for the revised Charter which was included in the report. The Audit Manager said within the structure of the 2016/17 audit only 3

drafts were yet to be finalised and this was the best position the Council had been for a number of years now.

The Chair asked what was being done to support schools following the financial deficits of Forest Hill and Sedgehill schools. The Audit Manager said schools were being encouraged to do their forecasts and budgeting and support was being offered. She said they had control issues with purchase orders but things were slowly improving. The Chair asked whether the schools were using a different payroll system and was told that the schools had to decide what payroll system they want to use. Panel members were informed that the schools' accumulated limits have now been raised, in the past in order to spend £3,000 they have to get 3 quotes, now the sum has been raised to £10,000.

Carole Murray said she was pleased to see the level of data that was included in the report, and the report summaries were helpful, but she was a bit confused with the number of medium range recommendations. She received a response on why this was the case and an explanation on the difference between different financial status groupings in the report.

Panel members raised concerns that action taken against employees who had been found guilty of fraud ought to be strict enough to serve as a deterrent. The Head of Corporate Resources said the respective manager would usually pass the complaint to the Human Resources Manager and action would be taken in accordance with the Council disciplinary process. Executive Directors received regular updates on this.

RESOLVED that

- i. the report be noted.
- ii. the revised audit charter be approved.

ANY OTHER BUSINESS

Safety of Exterior Cladding on Lewisham Tower Blocks

Panel Members asked about the Council's financial exposure now that fire safety works were to be done on the Council Tower blocks to examine cladding, sprinklers and fire alarms to ensure they comply. Panel members were told that the DCLG had assured Councils that they would meet the cost of this project as they were aware it would cost the local authorities a lot of money.

It was noted that an independent inquiry would be set up and a report would go to the Housing Select Committee in September. The Chair of the Housing Select Committee would then make recommendations to the Audit Panel. Councillor Hilton said it would be wise for an audit stock to be taken before any decision about the next step was taken.

ACTION >>>>>>> Head of Corporate Resources

Meeting ended: 8.17pm