

# MINUTES OF THE AUDIT PANEL

Thursday, 20 September 2018 at 7.00 pm

PRESENT: Councillors Alan Hall, Mark Ingleby, Louise Krupski, Joan Millbank, James Rathbone, Carole Murray and Stephen Warren

ALSO PRESENT: Councillors Bell and Brown.

Apologies for absence were received from Councillor Paul Maslin and Ian Pleace

## 19. Minutes

RESOLVED that the minutes of the open meeting held on 12 July 2018 be agreed as a correct record.

## 20. Declarations of Interests

None received.

## 21. Transition to Oracle Cloud Update - presentation

The Head of Financial Services highlighted that Oracle Cloud had gone live for the last four months and as far as officers could see it had been successful to date. He said the implementation took 10 months which was really fast. Officers were now ready for Payroll to go live. The Head of Financial Services and a representative from the Programme Team described the new system under the following headings:

Introducing the London Borough of Lewisham

Our Business Drivers for Change

Our main Drivers for change

Why we felt Oracle Cloud was the right solution

The programme Team

Where are we on our journey and what are the key learning points for audit Panel to note

Where we are starting to understand how the product will help us realise our benefits

Core HR and ERP Go Live Risks

They informed Panel Members that the process had been tightened.

No invoice could be paid without it being matched to a purchase order and receipt.

Logs could be easily tracked.

Separation of role; it would not be possible for someone to both create and approve an expense report.

In time there would be an automatic change of role when someone changed their job, although this was currently done manually by a member of staff.

It has an active Directory account for single users.

Carole Murray said that an automated process to update the system when people change roles would be more efficient instead of relying on one person to do it

manually. She said she had been concerned about dual roles but was now satisfied it was being addressed.

Stephen Warren said it was comforting to hear the analysis but asked that Panel Members see the audit report with its recommendations. He said Panel Members would be interested to know whether there were recommendations which management did not accept; how many recommendations were outstanding and what was the timescale for implementation. Stephen Warren said Panel Members would like to know the number of risks that management thought acceptable and how this was decided.

The Head of Financial Services said officers would go through this before the system goes live. He said in the next three months there would be significant changes to make the system more secure. He added that there was a new way of logging without having external access. The Chair thanked officers for the report and asked that the internal audit report on the system be sent to all Panel Members as soon as possible.

**Action >>>>>> Head of Financial Services.**

## **22. Final Accounts 2017-18 Grant Thornton's External Audit Reports**

Paul Grady, Engagement Lead, Grant Thornton, introduced the report, and informed Panel Members that the report had been updated since they saw it at their last meeting and was almost ready to be concluded, with one outstanding report for schools. Mr Grady said they were not able to complete the work on time because of a number of factors. He said some of the challenges arose because of the implementation of the new financial ledger system, but they anticipate issuing an unqualified audit opinion.

Mr Grady said the biggest change in the report was the accounting in respect of the Council's LOBO loans which was complicated. He said they also identified a significant risk in respect of the governance arrangements over the Council's transformation programmes, and they would be reviewing the Council's work and interviewing officers to collate evidence related to the risk. Mr Grady said most of the work had been completed and a certificate would be issued on completion.

The Chair asked why the variance between the budget and the savings was so large, and was told it could be due to a number of reasons e.g. unrealistic projections, or managers not being held accountable. Mr Grady said although the Budget was in deficit the Council's Reserves were healthy, and this was a positive.

The Chair asked why the draft report had stated there was no reserve strategy but the current report had been amended to say the strategy in place was not explicit and of minimum level. Mr Grady said although there was a strategy the content did not include what had been suggested by Grant Thornton. He said this was a significant risk because to achieve the level of savings required there ought to be a relevant strategy. Mr Grady said transformation and service delivery were important and planning needed to be done and the process tightened.

### Pension Audit Findings

The Chair said from what he could see the Pension report from the last meeting remained unchanged. This was confirmed.

RESOLVED that the report be noted.

### **23. Final Accounts 2017-18 LBL Response to Grant Thornton's Findings**

The Acting Group Finance Manager, Core Accounting stated officers were not happy with the general aspect of the audit. He said Grant Thornton did not provide a plan for them as requested and a number of times they could not monitor the precise process of audit. Officers said some of the samples requested came very late and did not give officers time to meet the intended deadline. Officers stated that Grant Thornton changed the advice they had given for LOBO. This was unhelpful as officers thought they were complying, then told otherwise. This also prevented officers meeting the deadline.

The Chair asked if Panel Members should assume that officers would get the dedicated support they need to ensure they meet the deadline next year. Mr Warren said it would be useful for Panel Members to receive an update of the actions following the Auditors and officers debrief. The Head of Financial Services said this would take place in October and both sides intend to build a strong relationship going forward. Paul Grady said there were learning points for both sides.

#### **Action >>>>> Head of Financial Services**

The Head of Financial Services said as officers were now using Oracle Cloud, budget holders would be monitored and supported constantly. He said he acknowledged that the Council uses reserves to balance the budget but this was the current reality within the public sector. He said officers intend to look at the budget closely and support managers as best as they could to make an accurate forecast. He added that the Chief Executive would be looking at transformation in the Council.

Panel Members asked what the Auditors thought might be useful to consider for savings going forward and were told the Council would need to undergo a behavioural change, and do a reality check. They said the Council would also need to identify what is going wrong in the budget, and individuals need to be held to account to deliver their budget.

Steven Warren said an action plan that included management's response and assurance to address issues was yet to be completed. He said Panel Members should have a version that included management response and their proposed actions this should include timescales, and be honest and practical.

#### **Action >>>>> Head of Financial Services**

Carole Murray asked why children transport was overspent, she asked whether officers were making savings in one area without thinking of the impact in another area. Carole Murray asked if there was an internal audit plan for this and was told this would be looked into.

## **Action >>>>> Head of Financial Services**

Councillor Rathbone asked how much longer the Council would have to rely on reserves, and was told this would depend on several factors, and should be a question for management. Paul Grady said it would depend also whether the Council has a reserve policy and what it entails. He added that in comparison to its neighbours the Council did not have to worry at present.

The Chair asked if the whistle blowing allegation had been resolved and was told it would form part of the value for money work. The Chair thanked officers and the Auditors for the report.

RESOLVED that the report be noted.

## **24. Letters of Representation**

The Chair said as advised he did not sign the Letters of Representation at the last meeting, as work had not been completed, but he was happy to sign them off now.

Stephen Warren asked that in future officers provide the evidence to the Panel before the letters are signed off, this was agreed. The Chair asked for the evidence for the current letters to be circulated to Panel Members.

## **Action >>>>> Head of Corporate Resources.**

## **25. Catford Regeneration Partnership Ltd - 2017-2018**

The Chair stated that at the last meeting it was noted that Catford Regeneration Partnership Ltd had a limited assurance audit report and he had therefore requested the full report to be brought to this meeting. The Head of Corporate Resources said unfortunately the report on the agenda was meant for internal circulation with no covering report from officers. Nonetheless, the report was correct and sets out the findings and recommendations in the usual way. He said management were now taking the agreed actions to address the issues raised.

The Chair said the findings had gone through the various processes including the Executive Director. He added that the report was brought to the Panel's attention at the last meeting because of concerns that were raised over two years ago about governance within the Partnership, this was reflected in the Auditor's comments. The Chair said to date the concerns have not been addressed, and management needed to update Panel Members on the steps that had been taken to address concerns raised by elected members. The Audit Manager that a follow up review by internal audit would take place in in November.

Councillor Krupski said it was a shame this could not have been dealt with outside this public meeting. Stephen Warren said that responsibilities, standards and expectations should be clearly drawn out for the Partnership. Panel Members said they needed to be assured that due process was being followed. Councillor Millbank said a Memorandum of Understanding would be useful for the Partnership.

The Head of Corporate Resources assured Panel Members that the audit had not identified that officers were going beyond their remit but that the company's controls needed to be strengthened as identified in the report. The Chair said Panel Members were looking forward to receiving updates on the action points and how the concerns raised have been addressed, plus the Memorandum of Understanding. The Chair said he was surprised the Auditors were not more concerned about their being only two Directors, both officers.

### **Action>>>>> Head of Financial Services**

RESOLVED that the report noted, and agreed that an update would be sent to Audit Panel Members in November.

## **26. Internal Audit Update**

The Head of Corporate Resources introduced the report, and informed Panel Members there were no Limited, no Assurance or Consultancy reports issued since the last meeting. In respect of the follow-up reviews, he said there were quite a few still as work in progress, not completed. This was also the picture noted from the lengthening time allocated to complete recommendations by management. He added that this was understandable because of the changes the organisation was going through. The disadvantage being, risks were being carried a long time after they have been identified, but officers would continue to keep this under review.

Panel Members noted that schools audits were progressing, and there were a significant number of recommendations outstanding, this was partly because the relationship with schools was now at arm's length, and also because of the Summer holidays.

The Head of Corporate Resources reminded the Panel that the internal audit service now consisted of both in-house and contractual staff. The aim was to strengthen in-house staff, to bring down cost and strengthen the understanding of the organisation practices and risks. However, this had to be balanced with the need to fresh insights and specialist Knowledge (e.g. technology) for some audits.

The Chair commented that he noted that schools overdue recommendations have increased to 66%, and hoped to see a reduction by December. Officers said, because schools were now accountable to themselves that could be difficult, but with the new software in place this would help track progress.

Panel Members raised concerns over the recommendation from the Risk Framework review which was partially agreed by management, but assurance was given that officers would liaise with finance to address the problem.

Carole Murray said by definition high recommendations should be addressed urgently because they were crucial, she raised concern that some of them had not been addressed for 12 months. Officers said a lot of them were connected to Oracle and officers were knowingly living with the risk, relying on manual checks

where necessary. Now that Oracle Cloud was in place a lot of these recommendations should be closed. Carole Murray asked if clients were being put at risk and was told that most of the recommendations became overdue in August and would be addressed soon. Panel members were assured that if this was not the case the responsible manager would be invited to the meeting.

The Chair said officers should send appendix 2 to Panel Members before the meeting and they would decide who they would like to see. The Chair asked for a briefing on the recording of Safeguarding to be provided.

Councillor Ingleby requested an explanation on the disagreement on the eligibility check, and the Head of Corporate Resources explained that this issue was to be reviewed as part of the service redesign and transformation work underway and would be addressed through that work.

**Action >>>>> Head of Corporate Resources.**

RESOLVED that the report be noted.

Meeting ended 8:45pm

Chair.....