

MINUTES OF THE AUDIT PANEL MEETING

Tuesday 6 December 2022 at 7pm

PRESENT Councillor Kestner (Chair), Councillor Rathbone, Councillor Schmidt, Councillor Webley-Brown.

IN ATTENDANCE VIRTUALLY:

NB: Those Councillors listed as joining virtually were not in attendance for the purposes of the meeting being quorate, any decisions taken, or to satisfy the requirements of s85 Local Government Act 1972.

Also present: Amber J Banister (Grant Thornton (Auditor)), Lakshmi Forster (Grant Thornton (Auditor)), Paul D Grady (Grant Thornton (Auditor)), Paul J Jacklin (Grant Thornton (Auditor)), David Austin (Director of Finance (Officer)), Rich Clarke (Head of Assurance (Officer)), Kathy Freeman (Executive Director Corporate Resources (Officer)), Sofia Mahmood (Chief Accountant (Officer)), Claudette Minott (Clerk).

Apologies: Councillor Sakina Sheikh, Councillor Shrivastava, Stephen Warren, Ian Pleace (Independent Members)

1. Minutes

- 1.1 Independent Member Stephen Warren sent apologies, however he sent in comments with regard to items on the meeting agenda, which were forwarded to the Chair and officers ahead of the meeting, as outlined below:

Item 1 - Minutes of Previous Meeting (21 June 2022):

- Page 1 - Item 3. Is it appropriate to add that the Chair said that he was satisfied that the nature of the interest did not disqualify me from participation?
- Page 2 - Item 4 - Recommendation as part of the Audit Findings report: for 'Northern Trust t' read 'Northern Trust'
- Page 2 - Item 4 - Audit Risk Assessment and Audit Plan - for 'the presumed risk of fraud in every revenue recognition' read 'the presumed risk of fraud in revenue recognition'
- Page 2 - Item 4 - Audit Risk Assessment and Audit Plan - for 'It was asked what Grant Thornton's opinion was on cut-off test' read 'It was asked what Grant Thornton's opinion was on the results of cut-off testing'
- Page 3 - Item 5 - for 'making it more consistent across the Council' read 'making them more consistent across the Council'

- Page 3 - Item 5 - for 'It was also asked how does Lewisham's financial resistance compare to other Councils.' Read 'It was also asked how does Lewisham's financial resilience compare with that of other councils'
 - Page 4 - Item 6 - Framework of Governance: for 'fulfilling agreed actions arising from audit report.' read 'fulfilling agreed actions arising from audit reports'.
 - Page 6 - Item 9 - for 'It was agreed that a report summarising the changes on guidance for auditors from CIPFA would be brought to the next Panel meeting.' Read 'It was agreed that a report summarising the changes on guidance for Audit Committees from CIPFA would be brought to the next Panel meeting.' [Also, this does not appear to be on the agenda]
- 1.2 The Chair referred to the matter to the clerk for comment. The clerk advised Members that the typos had been noted and that the minutes of the last meeting would be referred back to the clerk who covered that meeting,
- 1.3 The Chair advised that for the record she was satisfied with the declaration of interest Mr Warren made at the last meeting.
- 1.4 RESOLVED: The minutes of the last meeting were agreed.
- 1.5 The Chair noted two outstanding items to be followed up by Officers:
- Information on the recommendations with regard to the Adult Safeguarding Peer Review.

The Chair advised the Committee were asked to receive comments. However none were received.
 - CIPFA Guidance For Audit Committees

The Chair handed the discussion over to the Head of Assurance (Officer) for further clarification.

The Officer advised the Committee that the report was due late summer 2022, however it was published in October 2022.

The Officer informed Members that the report was due to be included in the meeting agenda. However, due to the meeting agenda being full, the report would be added to the meeting agenda for the next panel meeting scheduled for March 2023, as a separate standalone item.

Members were advised by the Officer that the Guidance was published on the LBL website and it would also be circulated to Members via the clerk.

2. Declarations of Interest

None were received.

3. Audit Findings Report 2021/22

- 3.1 Grant Thornton (Auditor) presented the report.
- 3.2 Members were advised that the report was not available for the original despatch date because officers were delayed by the ongoing audit queries and the requirement to incorporate the latest audit changes into the documents to be submitted to the Panel.
- 3.3 It was important for the Audit Panel to consider the report at the current meeting, as it would enable the audited accounts to be approved by Full Council on 18 January 2023.
- 3.4 The Auditor presented and gave an overview of the draft Audit Findings Report 2021/22 and advised Members that it followed on from their audit of the Council's Statement of Accounts and Pension Fund Accounts 2021/22.
- 3.5 The Auditor also advised the Panel that the purpose of their report was to present the Auditor's Annual Report (VFM) 2021/22.
- 3.6 The Auditor discussed issues such as: materiality, pension funds, the valuation of level 3 investments, pension fund viability, communication requirements and advised there were no material issues identified.
- 3.7 The Auditor also identified the following risks: management override of controls; risk of fraud related to revenue recognition; valuation of land and buildings; valuation of pension fund liability amongst others as detailed in the Auditors report.
- 3.8 The Auditor also discussed matters such as: completeness of issues, as outlined on page 13 of their report and advised the Panel that the Auditor had identified completeness of non-pay expenditure and associated short term creditors as a risk that required particular audit attention.
- 3.9 Independent Member, Stephen Warren submitted a comment, as detailed below:

Item 3 - Grant Thornton Audit Findings and Annual Reports 2021/22
 - Auditor's Annual Report to Lewisham Council - this contains a number of recommendations. It would be helpful for the Panel to have an update on agreed action and progress in implementation from officers before the subsequent year's reporting by GT to provide a focus for action.
- 3.10 The Chair followed up on Mr Warrens comment by enquiring how the Panel would oversee actions going forward.

- 3.11 The Director of Finance (Officer) advised that the Financial Statement papers would be a standing item on the agenda for the next scheduled Audit Panel meeting.
- 3.12 The Chair queried the concept of materiality presented to the Panel by the Auditor.
- 3.13 The Auditor advised the Panel of various testing and measures applied within the audit to identify risks. Members were informed the results of the tests and measures were the drivers for the recommendations put before the Panel.
- 3.14 The Chair queried the proposed fee as presented to the Panel by the Auditors report.
- 3.15 The Auditor advised the Panel that the fee was determined by the quality checks and balances conducted prior to completion.
- 3.16 A Member noted there were 32 assets and enquired as to what they were.
- 3.17 The Auditor assured the Panel that the 32 assets noted had no impact on the balance sheet and that it was not unusual for an organisation to hold assets that had fully depreciated, but were still in use such as cars or IT equipment.
- 3.18 The Auditor identified 3 key areas of focus: governance, sustainability and quality improvement as appropriate across LBL with recommendations provided on i) short term and ii) a priority basis.
- 3.19 The Auditor advised the Panel that LBL could take assurance from the report that they had responded well to the Auditors 2021 recommendations. The Auditor advised they found that there was evidence of clear communications across the LBL hierarchy, with clear vision on meeting challenges presented to LBL such as meeting savings and performance targets.
- 3.20 The Auditor noted that the Risk Management Strategy was being updated and it provided a promising picture despite the challenging environment LBL was in.
- 3.21 A Member enquired how the Auditor conducted its' research and investigation to reach its conclusions.
- 3.22 The Auditor informed the Panel that it conducted surveys, interviewed executive officers, conducted discussions with directorates and consulted internal audit information. The Auditor also advised that benchmarking had also been applied and there were no gaps found in the LBL's procedural arrangements.
- 3.23 A Member stated there was an issue of confidence with the report due to inaccuracies provided, such as the CEO's attendance to the meetings and the frequency of meetings, noting the CEO did not attend all meetings and the Panel did not meet every six weeks as advised by the Auditors report.

- 3.24 The Auditor advised the advice in the report referred to meetings that were held outside of the Panel.
- 3.25 The Member noted that an outsider reading the report may not have this knowledge, noting with the high level of recommendations how much confidence could there be regarding LBL activities on a day-to-day basis?
- 3.26 The Auditor provided assurance that the information provided in the report was reliable and acknowledged the errors that were highlighted.
- 3.27 The Executive Director Corporate Resources (Officer) provided additional clarification stating that given the size and complexity of the report the issues raised were noted and would be revised and amended ahead of the next scheduled full Council meeting.
- 3.28 The Officer also advised that she would consult with other Officers on the matter.
- 3.29 The Auditor reiterated their assurances and advised the Panel that the reporting involved consultation, challenge and scrutiny. Several iterations of the report were created to the current final draft of the Auditors report now submitted to the Panel.
- 3.30 The Chair was satisfied that assurances would be provided by the Auditor and Officers in due course.
- 3.31 The Chair enquired what should LBL be focused on in more detail going forward?
- 3.32 The Auditor noted LBL should focus on various events that had an impact on the LBL activities such as the pandemic.
- 3.33 The Chair enquired whether a reduction in LBL reserves was a cause for concern.
- 3.34 The Auditor advised the Panel that they were aware of the LBL reserves for medium to long-term projects and expected the reserves to cover the projects.
- 3.35 A Member enquired why the data selected by the Auditor was used as a measure of the LBL reserves.
- 3.36 The Auditor provided the Panel with assurance that the data used to convey reserve, illustrated the specified figures were available for the purposes they were allocated to.
- 3.37 The Director of Finance supported the Auditors assurances.
- 3.38 **Recommendations**

The Audit Panel were recommended to note the contents of the report and approve delegation to the Chair of the Audit Panel, in conjunction with the Section 151 Officer, to agree the final reports for submission to Full Council.

3.39 The Panel agreed the recommendations

3.40 RESOLVED the report was noted.

4. Statements of Accounts 2021/22

4.1 Members were advised that the report was not available for the original despatch date because officers were delayed by the ongoing audit queries and the requirement to incorporate the latest audit changes into the documents to be submitted to the Panel.

4.2 It was important for the Audit Panel to consider the report at the current meeting, as it would enable the audited accounts to be approved by Full Council on 18 January 2023

4.3 The report provided an update to the Audit Panel of 2021/22 Statement of Accounts and the statutory external audit processes undertaken.

4.4 The report also provided the Panel with details of the management action responses to the Auditor recommendations made as part of the 2021/22 external audit as well as those included within the Auditor's Annual (Value for Money) report.

4.5 The Chief Accountant (Officer) provided an overview of the Statement of Accounts with its supporting Appendices and advised the report would be published with guidance, then presented to the next scheduled full Council meeting.

4.6 The Officer drew the Panels attention to page 273 of the report that discussed the recommendations and noted there were 5 new recommendations, 3 of which related to the 2021 recommendations present to LBL by the Auditor.

4.7 The Officer also discussed the general ledger, review assets and records of assets, noting an incident where a record of an asset could not be found. The Officer assured the Members this particular issue was historical archiving issue and it was unlikely it would occur again.

4.8 The Officer discussed the VfM report and noted there were 5 outstanding recommendations out of 13 recommendations set out by the Auditor. In addition there were 7 new recommendations as outlined in the report.

4.9 The Officer advised responses to the recommendations would be provided ahead of the reports submission to the next full Council meeting.

4.10 The Officer drew the Members attention to page 120 of the report and discussed: cost of services, schools, human resources (HR), HR system,

annual leave accrued, actuary valuations, the balance sheet, cash balances and creditors.

- 4.11 In response to Member queries the Director of Finance (Officer) gave the Panel assurances with regard to the independence of the Auditor and reliability of the information provided.
- 4.12 The Auditor supported the Officer's assurances.
- 4.13 The Chair enquired about the accounts of Lewisham Homes now that LBL were due to take the Lewisham Homes function back in-house.
- 4.14 The Chief Accountant (Officer) and the Auditor confirmed to the Panel that Lewisham Homes would require its' own set of group accounts.
- 4.15 The Chair enquired on the current trend with regard to LBL grants.
- 4.16 The Chief Accountant (Officer) noted grants such as that provided for Covid and advised the Panel that LBL was in the process of completing the allocated spend on those grants.

4.17 Recommendations

The Audit Panel were recommended to note the draft Statement of Accounts and Pension Fund Accounts 2021/22 and the agreed audit adjustments, and:

- Approve the Management Representation Letters.
- Provide an update on the recommendations to the Draft Audit Findings Report 2021/22 and follow up of 2020/21.
- Provide an update on the recommendations to the Auditor's Annual Report (VfM) 2021/22 and follow up of 2020/21.
- Recommend delegation to the Chair of the Audit Panel, in conjunction with the Section 151 Officer, to agree the final reports for submission to Full Council.

4.18 The Panel agreed the recommendations.

4.19 RESOLVED the report was noted.

5. Internal Audit Update (including IA Charter)

- 5.1 The Head of Assurance (Officer) presented the report and provided an overview of the Internal Audit Update, which also included the Internal Audit Charter.
- 5.2 The Officer advised the Panel that the Internal Audit Charter was a formal document that translated the principles and objectives of the Public Sector Internal Audit Standard into their local application. It was a key document in providing internal audit with the authority to conduct its work and therefore required annual endorsement from the Members.

- 5.3 The Panel were advised that in order to comply with Public Sector Internal Audit Standards (the “Standards”) each internal audit service was required have a Charter. The report therefore set out how certain questions of Standards application that were left to individual organisations to determine would function, as well as provide a high-level statement on the position and authority of the internal audit. The Standards required that the Charter underwent a periodic review and approval by Senior Management and Members.
- 5.4 The Officer advised Members that the current Internal Audit Charter was approved by the Panel in June 2021. That particular document was a brief overview that omitted some Standards requirements and did not fully address how to maintain the service’s independence.
- 5.5 Members were informed that this was partly due to the then Head of Audit being seconded from an external firm, who presented those independence and organisational questions in a different context.
- 5.6 The Panel were advised that the Chief Audit Executive role was now delegated to the Head of Assurance, who also had operational responsibility for insurance, risk management, counter fraud and corporate health & safety.
- 5.7 Members were informed that the Officers new role was a permanent post, which encompassed a wider responsibility and created an opportunity to revisit the Charter fully to ensure Standards compliance and fit with the permanent structure of the service.
- 5.8 The Officer also provided an update on the work of the Internal Audit service, as detailed in the Officer’s report.
- 5.9 There were no questions from the Panel to the Officer.
- 5.10 The Officer gave the Members an overview of the work that had been completed since the Panel last meeting and discussed areas such as: limited assurance rating, bank reconciliation improvement providing further detail on how the finance team would modify the bank reconciliation process. The Officer was satisfied with the proposed actions that would be undertaken to deliver the outcome.
- 5.11 The Officer discussed section 6.2 of the report and noted the LBL had engaged two new apprentices.
- 5.12 The Panel were also advised the school audits would be completed within the next few weeks.
- 5.13 The Officer explained the report findings with regard to work that had been completed as a result of Auditor recommendations and the Officer advised the Members he was satisfied that LBL were on top of high priority cases, noting if future issues arose, the Panel would be notified.

- 5.14 Members' questions put to the Officer related to: Section 106; unconnected funds; services; Members confidence in the report; meaning of paragraph 7.1 of the report and LBLs tolerance to risk.
- 5.15 The Officer provided clarification to Members with regard to Section 106 as detailed in the report.
- 5.16 The Panel were assured by the Officer that he was keeping track of LBL Funds
- 5.17 The Officer discussed LBL crematoriums and cemeteries as an example to the Panel of services and advised that such a service involved risks such as: staff training, finances and operations.
- 5.18 The Officer addressed the concern of Members confidence and assured the Panel that this year LBL had taken on 5 engagements. It was also noted that work was being done to improve the declaration of interest form, which the Panel would be notified of.
- 5.19 Members were provided with clarification by the Officer of paragraph 7.1 of the report. The Officer advised that the quality assessment procedure, noting that the delivery of improvements would be easy since the recommendations received on this area were the same as received in 2021.
- 5.20 The Officer noted that the recommendation of additional training was a good quality recommendation and minded Members that not all outstanding actions were listed individually.

5.21 Recommendations

5.22 The Audit Panel recommended that:

- Members approve the Internal Audit Charter.
- Members note the Internal Audit Progress Update.

5.23 The Audit Panel approved the Internal Audit Charter.

5.24 The Audit Panel noted the Internal Audit Service Progress Update.

5.25 RESOLVED the Panel noted the reports.

6. Risk Update

6.1 The Head of Assurance (Officer) presented an overview of the Risk Update report.

6.2 The report provided the Panel with an update on the Council's Strategic Risks, as detailed in the Strategic Risk Register for the quarter ending 30 September 2022.

- 6.3 The report also advised Members on the progress toward with regard to the development of a refreshed Risk Management strategy, in order to replace the current 2017-22 edition submitted to the Panel in June.
- 6.4 The Officer advised the Panel that work would be undertaken in early 2023 to streamline the Risk Management Strategy, as the current iteration was not as clear as desired.
- 6.5 A Member asked for clarification of the differences between the old and new Risk Management Strategy.
- 6.6 The Officer advised the Panel that the new strategy detailed corporate and project risks. The Officer provided further clarification noting that the highest projects risks equalled impacts on LBL.
- 6.7 Several Members of the Panel raised concerns with regard to Council Tax risks.
- 6.8 The Officer advised the Panel that Council Tax was listed on the Risk Register as Debt Collection – 583 and was reviewed annually to see whether its position should be amended.
- 6.9 The Executive Director Corporate Resources (Officer) acknowledged the Council Tax risks and noted the tax formed 40% of the LBL income. Members were informed by the Officer that the LBL Council Tax debt collection methods were undergoing review and amendments.
- 6.10 The Chair sought assurance as to whether the review and amendments being applied to the debt collection process for Council Tax, would be applied to local business rates.
- 6.11 The Officer advised the Members that she would investigate the debt collection process for business rates.
- 6.12 A Member enquired about the LBL risk appetite.
- 6.13 The Head of Assurance (Officer) stated that LBL sometimes take risks that are deemed as acceptable, whilst aim to avoid those that would be bad for LBL. However each risk would need to be assessed within the context it appeared in. Sometime it was necessary for LBL to accept risks.
- 6.14 The Chair asked if risks registered were not dealt with on target and there were no proposed actions on the part of LBL, would the LBL be viewed as complicit in support of the risk?
- 6.15 The Officer reiterated that on occasion LBL would face risk that were unavoidable to it's activities.
- 6.16 The Chair made reference to errors in the Corporate Risk Management Tool.
- 6.17 The Officer noted the errors and advised there would be amendments made.

6.18 A Member enquired how soon improvements be seen under the new risk strategy.

6.19 The Officer assured Panel Members that improvements in LBL risk outlook would become evident in a matter of months.

6.20 Recommendations

The Audit Panel were given the recommendation to:

- (i) Note the Strategic Risk Register
- (ii) Note and comment on plans for developing the Risk Management Strategy

6.21 The Panel:

- Noted the Strategic Risk Register
- Note and comment on plans for developing the Risk Management Strategy

6.22 RESOLVED the Panel noted the report.

The meeting finished at 8. 46 pm