



Audit Panel

Report on the Work of the Audit Panel 2022-23

Date: 14 March 2023

Key decision: No

Class: Part 1.

Ward(s) affected: No individual specific wards.

Contributors: Head of Assurance, Chief Accountant

Outline and recommendations

(Note we present the report as it will appear when circulated to PASC ahead of its 16 March 2023 meeting. References to “this” Committee refer to PASC).

This Committee’s Terms of Reference direct that it should scrutinise the effectiveness of the Audit Panel. This report outlines the Audit Panel’s work during the municipal year 2022/23 to support this Committee in discharging that responsibility.

Timeline of engagement and decision-making

- *XXX March 2023: Approved informally by Audit Panel Chair*
- *14 March 2023: Presented for comment at Audit Panel*

1. Summary

- 1.1. Section 6.7 of the Council’s Constitution details specific terms of reference for each Committee. For the Public Accounts Select Committee the terms of reference direct, among other instructions, that the Committee should “scrutinise the effectiveness of the Audit Panel”.
- 1.2. At Section 9.3 the Constitution directs that the Audit Panel should comprise 6 non executive Councillors (one serving as Chair) and up to 4 independent co-

opted members. The constitution then details eleven areas where the Panel should “receive, review and where appropriate advise [...] and make recommendations”.

- Review and approve the Council’s internal audit strategy, plans and resources.
 - Internal audit quarterly progress reports.
 - Annual Report of the Council’s Head of Internal Audit.
 - Reports of Internal Audit on where management has failed to undertake necessary actions within the planned audit time frame.
 - The external auditor’s Annual Plan and relevant reports.
 - External inspection reports and specific reports as agreed with the external auditor.
 - Monitoring effectiveness of risk management, control environment and anti-fraud and anti-corruption arrangements.
 - Overview of the Council’s constitution on audit procedure, contract procedure and financial regulations.
 - Assurance arrangements, including the Statement of Internal Control.
 - The Annual Statement of Accounts, including whether appropriate accounting policies have been followed and any concerns arising from the financial statements.
 - The external auditor’s opinion and reports to members, and monitoring management action in response to issues raised by external audit.
- 1.3. This report sets out the Panel’s work during the municipal year 2022/23, assuring this Committee that the Panel has appropriately and fully discharged those responsibilities..

2. Recommendations

- 2.1. We recommend PASC **note** this report. Noting the report will aid PASC in discharging its responsibility to scrutinise the Audit Panel’s effectiveness.

3. Policy Context

- 3.1. The report supports the Council’s Governance goals, recognising that strong corporate governance arrangements are crucially important to managing a modern and successful local authority.

4. Background

- 4.1. This report sets out the respective responsibilities of PASC and the Audit Panel in Section 1.
- 4.2. The Audit Panel has met twice during the 2022/23 municipal year, and by the time PASC receives this report it will have met for a third time. Papers were also circulated for a fourth meeting, cancelled at short notice following the

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announcement from Buckingham Palace of the Queen's death around an hour before its scheduled start. Meetings and attendance details as summarised below:

- 21 June 2022: 5/6 Members present plus 2/2 Co-Optees
- 8 September 2022: Papers prepared and circulated but meeting cancelled.
- 9 November 2022: Meeting planned to focus on the financial statements audit. Cancelled and dealt with at next meeting to allow more time to complete the audit.
- 6 December 2022: 4/6 Members present plus 0/1 Co-Optees
- 14 March 2023: Meeting pending.

5. External Audit and Financial Statements

5.1. The timetable for local government accounts continues to experience delays. These are partly attributable to the Covid-19 pandemic but also the widely-acknowledged increasing complexity of accounting requirements and resourcing difficulty within the audit sector.

5.2. For the 2021/22 financial year the statutory deadline for audited accounts was 30 November, having been moved back from 31 July the previous year. However, in common with almost every local authority in the country, the Council's financial statements audit stretched beyond that deadline.

5.3. In June, the panel received from the Council's external auditor (Grant Thornton) its Audit Plan for the 2021/22 financial statements audit, also covering the Council's Group Accounts and Pension Fund. This plan described Grant Thornton's view of the key risks to the financial statements' material accuracy.

5.4. The Panel also received in June, and at every subsequent meeting, a tracker describing progress on implementing all Grant Thornton's recommendations.

5.5. In December, slightly later than planned, the Panel received Grant Thornton's draft audit findings report for 2021/22 and the Annual Report including the Value For Money Conclusion.

5.6. While the audit findings report was presented as draft, acknowledging work remaining to complete, it anticipated an unmodified audit opinion. The Report summarised its findings as:

- *"The overall quality of the financial statements continues to improve and at this stage we have identified less misstatements and presentation changes than the previous year... We have identified adjustments to the Council's Financial position... [but] these are immaterial extrapolated errors that are well below materiality levels"*

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5.7. The December meeting also featured Grant Thornton's Annual Report for 2021/22. This report included the Auditor's conclusion on the Council's Value for Money arrangements. This Conclusion was the second year of reporting under the National Audit Office's new Code of Audit Practice that directs auditors to have particular regard to Financial Sustainability, Governance and Improvement Economy, Efficiency and Effectiveness. The report identified no significant weaknesses in arrangements but made some improvement recommendations. Its overall conclusion was:

- *"The Council has demonstrated robust arrangements across all three areas of focus... No weaknesses have been identified in the Council's arrangements which would lead to raising the most serious recommendations. Some improvement recommendations have been highlighted [which] represent suggestions of ways the Council may achieve best practice as opposed to correcting poorly performing arrangements. The Council should take comfort from the fact that arrangements are deemed to effectively respond to the challenges the Council has face in 21/22 including responding and recovering from the pandemic and uncertainty in relation to future funding levels. There is a clear drive for improvement at the Council which has been demonstrated via the greater level of collaboration and communication being observed at all levels of the organisation and therefore although the Council faces future uncertainties, particularly financial, the arrangements in place prepare them well for the challenge."*

5.8. The Panel will receive a further update in March on progress towards implementing those recommendations.

6. Internal Audit

6.1. In June, the Panel received the Annual Opinion from the Head of Assurance, commenting on the Council's governance, risk management and internal control for 2021/22. While the overall Opinion was satisfactory, the Head of Assurance noted some persistent (but largely minor) control weaknesses, which were also disclosed in the Annual Governance Statement.

6.2. Throughout the year, the Head of Assurance also updated the Panel on progress towards completing agreed audit actions and delivery of the 2022/23 Audit Plan approved in March 2022. These reports showed continued improvement in responding to internal audit recommendations and detailed a specific exercise to quality-check long-standing actions to ensure they remained suitable and effective.

6.3. Every five years the Council's internal audit service must undergo an External Quality Assessment (EQA). This assessment was due in 2022 and completed by the Head of Audit for the City of London as part of the London Audit Group's

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peer assessment programme. The City of London Head of Audit attended the Panel meeting in June 2022 to explain his conclusion that Lewisham's Internal Audit service conformed to Public Sector Internal Audit Standards. His report included a handful of recommendations for improvement, all reported to the Panel as complete in the September 2022 meeting papers.

- 6.4. In December the Panel received an updated Audit Charter. This Charter, an essential requirement of Public Sector Internal Audit Standards, sets out the local approach to internal audit. As well as reflecting some minor issues arising from the EQA, the revised Charter also set out independence safeguards given the Head of Assurance's broader operational role that his external secondee Head of Audit predecessor.
- 6.5. In March the Panel will receive standard updates plus the proposed internal audit plan for 2023/24.

7. Anti-Fraud and Corruption

- 7.1. Information on progress of the Anti-Fraud and Corruption Team (A-FACT) was incorporated into audit updates and included in a separate annual report. This report was prepared for and distributed among the papers of the September meeting cancelled in the wake of the Queen's death.
- 7.2. The report noted a consistent caseload, with 70 being closed in 2021/22 (from 66 in 2020/21). Ten of these cases involved employees (same as 2020/21) with four resulting in disciplinary action, plus one resignation while under investigation.
- 7.3. The report also noted A-FACT's continuing work in assessing Covid-related business grants. The team's intervention resulted in rejecting over half of the applications received. In around two-thirds of cases this was because of ineligibility for the grant requested, but included claims for empty premises or non-trading businesses. We submitted data from schemes to the National Fraud Initiative for further data matching and investigation.
- 7.4. The report was accompanied by an updated counter fraud policy. This was a general housekeeping update, but flagged a wish to undertake a broader policy review in 2023/24.

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8. Risk Management

- 8.1. During the year the Panel continued to receive regular updates on the Corporate Risk Register. The reporting approach evolved at each meeting in response to Member feedback and included a specific look at adult social care safeguarding risk in the June meeting.
- 8.2. In March 2023 the Panel will receive the Council's new Risk Management Strategy, replacing the 2017-2022 version. This new strategy will support continued improvement in risk reporting, including to the Audit Panel.

9. Annual Governance Statement

- 9.1. The Annual Governance Statement forms part of the Financial Statements that the Panel reviewed in December. The Statement highlighted several governance priorities for 2022/23 on onwards, including:
 - *Delivery of the Mayor's policy programme as set out in the Corporate Strategy.*
 - *Progress improvements in financial management, organisational culture, resident experience, evidence-based decision making, governance and risk, project management and communications.*
 - *Addressing findings of external audit, and*
 - *Improving compliance with persistent control weaknesses identified by internal audit.*
- 9.2. The Audit Panel will continue to monitor and review progress on these priorities.

10. Other Business and Priorities for 2023/24

- 10.1. The equivalent report to PASC in March 2022 highlighted some additional areas of continuing work for the Panel. These included:
- 10.2. **Redmond Review:** In October 2022 CIPFA published its long-awaited guidance on the role of Audit Committees in local authorities, revised in the light of the Government's response to the Redmond recommendations. The Panel's March meeting will include a report on this guidance and its implications for the role and work of Lewisham's Audit Panel.
- 10.3. **Reviewing Panel Status and Terms of Reference:** This work continues, taking into account CIPFA's guidance.
- 10.4. **Recruiting Independent Members:** Noting the continued value and enormously appreciated contributions of Independent Members, the Panel retains an ambition to recruit up to its full complement. We will proceed with

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advertising vacant positions in the new municipal year pending review of the Panel's scope and terms of reference.

- 10.5. **Risk 'Deep Dives'**: The Panel will continue through 2023/24 undertaking 'deep dive' reviews into higher-rated risks recorded in the Council's Register. The aim of these exercises is to seek assurance that the Council's risks are appropriately identified with effective controls in place to mitigate their likelihood and impact.

11. Financial implications

- 11.1. There are no financial implications arising directly from this report.

12. Legal implications

- 12.1. There are no legal implications arising directly from this report.

13. Equalities implications

- 13.1. There are no equalities implications arising directly from this report.

14. Climate change and environmental implications

- 14.1. There are no climate change or environmental implications arising directly from this report.

15. Crime and disorder implications

- 15.1. There are no crime or disorder implications arising directly from this report.

16. Health and wellbeing implications

- 16.1. There are no health and wellbeing implications arising directly from this report.

17. Background papers

- 17.1. The background papers to this report are the Audit Panel meeting records published on the Council's website.

18. Report author and contact

- 18.1. For any queries on this report, please contact Rich Clarke, Head of Assurance on 020 8314 8730.

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