

MINUTES OF THE AUDIT PANEL

MINUTES of a meeting of the AUDIT PANEL, which was open to the press and public, held on WEDNESDAY 22 DECEMBER 2010 at LEWISHAM TOWN HALL, CATFORD, SE6 4RU at 7p.m.

PRESENT: Councillors Harris, Peake, Bonavia, Clutten and Mr Webb

Audit Commission

Sue Exton (District Auditor), and Chris Harris (Internal Audit Contractor)

Officers

David Austin	-	Interim Head of Audit and Risk
Chris Harris	-	Internal Audit Contractor
Richard Lambeth	-	Group Finance Manager

Apologies for absence was received from Mr King

1. Informal Minutes

As the meeting on 21 September was not quorate the notes were not signed but approved for accuracy.

2. Declarations of Interest

There were no declarations of Interest

3. Annual Audit Letter

The progress report was presented by the District Auditor. She reported that the annual audit letter summarises findings for the Council, which is brought to the Audit Panel, and then taken to Council to be considered.

The Chair asked whether there has been an improvement in receiving required information on time, since the panel's last meeting.

The District Auditor replied that since the last meeting the focus has been on certifying the Whole of Government Accounts return, this was 6 weeks late. We had to work closely with the finance team to get this information, and reported a number of errors. The other area that is being worked on is the certification of grant claims, the largest one being Housing Benefit grant claim, which went well. The different teams worked well and work was completed by the deadline. Great efforts have gone in by the Executive Director of Resources and her team to improve the quality of grant claims. In terms of the final account, we are at a stage

of planning systems audit work, and need to start looking at IFRS restated balance sheet, which is on plan. We are meeting regularly with the Executive Director of Resources and her team to ensure that things are kept on track.

The Chair asked what planning had been done to ensure that the Council delivers on time this year and that it reaches a higher standard.

The District Auditor replied that there have been detailed discussions on what essentially is needed to be ready before an audit is started.

The Group Finance Manager stated that he has had a number of meetings with the Audit Commission and internally with colleagues to set timetable and agendas. He stated that there are changes that need to be made, for example fixed assets accounting, and more planning and monitoring of what needs to be done; however, they are ahead of last year.

The Chair asked whether the planning in place is adequate to deal with the changing financial environment, the different accounting standards and other pressures on the Resources Directorate.

The District Auditor replied that it is too early to judge, as no substantial work has been started. It is possible at the next Audit Panel meeting that a more evidence-based account could be given.

With reference to the £60 million savings the council will make (on page 21, paragraph 38), Mr Webb asked whether the team will need to deliver more information at an earlier date, and if so, how this would be done with a possible reduction in resources.

The Group Finance Manager replied that there are some reductions, so the focus is on important areas. The accounts were on time but the main problem was working papers. There are plans to compile these alongside the accounts and so quality will be better. There is an awareness of potential problems and steps are being taken to address it.

With reference to the audit fees, the Chair asked whether the Commission had charged the Council less than the negotiated amount in any of the previous ten years.

The District Auditor replied that she had not been with the council for the whole ten years, but doubted this to be the case. However, she stated that fees are going down in 2010/11 by about 5% and overall fees will be going down about 10%. The Pension fund fee was also reduced, from £38,500 to £35,000.

RESOLVED that the report be noted.

4. Review of Half Year Financial Position- 2010/11

The Group Finance Manager presented the report to the panel. The report presents the overall financial position of the Council at the half way stage of the

2010/11 financial year. It provides information to Audit Panel Members to keep them up to date with the latest financial picture and to better prepare them to scrutinise the full year accounts at year-end.

The Chair asked what will the introduction of IFRS make the Council's overall budget position look like.

The Group Finance Manager replied that the IFRS affects the final accounts and not the budget position. There will be no bottom line affect on the accounts. The big changes were last year on the PFI schemes, this year the big changes are on leases and this will impact the balance sheet; but they are not expected to be material in the final accounts. Regarding employer benefits, the effect here is to create a reserve, which reflects the amount of annual leave which staff have not yet taken. This is a notional amount and an accounting technicality.

Concerning table 1, Councillor Peakes asked whether this represented the budget after or before the in-year cuts.

The Group Finance Manager replied that it is the original budget. These figures are based on the end of August position which was reported to Mayor & Cabinet in November 2010. The cuts were agreed in September so the affect of this will come through in the next budget monitoring report to Mayor & Cabinet. In-year cuts are about 2 million, but the affects of redundancies are still not known as proposals are still being costed.

Referring to paragraph 3.4, Councillor Bonavia asked whether the aim for the savings of the under-spend is to cover all redundancies costs.

The Group Finance Manager said that at the moment it is unlikely that the level of the underspend is enough to meet the cost of redundancies. However, the figures are still fluid. In terms of redundancies, the areas that were thought likely to have high redundancy costs have come down because of natural wastage and people leaving voluntarily which reduces redundancy costs. Some of the redundancy estimates have been made on the highest level, which means that some of the final costs will come out lower, but the full affect is not known yet.

Councillor Peake asked whether the in-year budget savings plus the forecast under-spend is able to cover the redundancy costs. The Group Finance Manager replied that this is unlikely; however, it is hoped that this years savings will be able to help cover redundancies costs. There will be more information at the next meeting on savings and redundancies.

With reference to the Council's target of 10 days for paying Small and Medium size Enterprises (SME), Mr Webb asked why work is not being done to improve the current low achievement rate.

The Group Finance Manager replied that 10 days is a high target to achieve, but measures are being put in place to address and improve the achievement rate. The problem with invoicing is that it is difficult to identify what is coming in and for it to move quickly through the payment chain.

Councillor Peake enquired whether a priority could be placed on SME receipts so that they are paid earlier. The Group Finance Manager confirmed that this is already being done, however the delay arises when receipts come via other departments. The 10 days target is an aspirational target and people are keen to stick to it, this could be looked at again to encourage departments to pay quickly.

The committee would like their concerns to be noted regarding whether 10 days is a credible target to achieve. The Interim Head of Audit and Risk confirmed that the 10 days was a target set by central government for public sector bodies.

The Committee would like answers to the following questions:

1. how many SME invoices are paid by cheques
2. what steps can be taken to brief staff to make sure they are aware of which invoices are from SME
3. the numbers behind the percentages

RESOLVED that the content of the report be noted

5. Internal Audit Report

This report was presented by the Interim Head of Audit and Risk. This report presents members of the Audit Panel with a summary of the following:

- Internal Audit's progress against the audit plan
- the performance of the Internal Audit contractor
- implementation of internal control recommendations
- forward plan for the next quarter.

The Interim Head of Audit and Risk informed the Committee that the Public Accounts Scrutiny Committee have asked that an additional independent member be sought for this panel, which is being looked into.

The Chair asked how long the new contract was proposed to be let for.

The Interim Head of Audit and Risk replied that the proposal that went to Mayor & Cabinet was for a three year contract with the option to extend for one and/or two years up to a maximum of six years. The logic for that, is that a longer contract is likely to invite a better price. However, in discussion with Southwark and Lambeth Councils, it was identified that Lambeth's internal audit comes up for tendering in 2012/13 and Southwark two years after that. So a three year contract, will allow us to coincide with Southwark and allow the shortest time that Lambeth can come unto the contract before retendering with a joint procurement if that is desired.

The Chair asked how many companies have come forward. The Interim Audit and Risk Manager said that 19 expressions of interest were received, with 11 submitted prequalification questionnaires, from which six have been shortlisted.

With regards to 4.9 on the use of consultants, Mr Webb raised concerns that previous recommendations and guidelines on the use of consultants are not being followed.

The Interim Head of Audit and Risk acknowledged Mr Webb's comment, and stated that one of the broad themes being looked at is compliance, as it is management that should be reinforcing and reassuring that any previous recommendations are followed.

Mr Webb expressed his concern that recent budget cuts may increase the need for consultants, as in house expertise is being lost; this makes it essential that this should be monitored.

The Interim Head of Audit and Risk highlighted that the words agency and consultant are used interchangeably, but there are clear differences. Directors have recently been asked to identify all agency staff and put them on notice that as jobs goes to redeployment, if someone can be deployed into an agency post then it should be done.

Councillor Bonavia asked what the sanctions against recommendations that were not implemented were. The Interim Head of Audit and Risk said that sanctions would be to call the relevant individuals in. He stated that he will find out the progress and come back in March with a more detailed update.

The committee would like it to be noted that they would like to bring forward Heads of Service where there have been concerns over recommendations not being implemented. The Committee would like this to be an agenda item for the March 2011 Committee meeting.

RESOLVED that the report be noted

6. Anti Fraud and Corruption Report

The Interim Head of Audit and Risk presented this report and gave the committee an update of the work of the Anti-Fraud and Corruption Team (A-FACT).

With reference to 3.1, Councillor Bonavia enquired into the big increase in new cases in August and wondered whether it was because of Lewisham Homes. The Interim Head of Audit and Risk stated that he was not certain, as there is work being done in that area, but the rise could be because of more internal reporting of activities and there are different reasons for that.

Mr Webb commented that it might be of interest to review previous years and see whether similar jumps in cases were also noted. The Interim Head of Audit and Risk said he will check and if relevant will include this information for the next Audit Panel meeting.

The Chair asked what would be done to look further into the Single Person's Discount. The Interim Head of Audit and Risk replied that further monitoring would

be done through a cross referencing of data to match, housing records, benefit claims, electoral register records and some credit reference checking.

Councillor Clutten asked whether there was capacity to do follow-up work on the Single Person's Discount. The Interim Head of Audit and Risk said yes, but that on-going work with the National Fraud Initiative comes in waves and there is a period to conduct the work. It is not additional work, but the theme is new.

RESOLVED that the report be noted.

The meeting was closed at 8.15pm