

<b>Public Accounts Select Committee</b>		
Title	Report on the work of the Audit Panel in 2016/17	
Contributors	Head of Financial Services and Head of Corporate Resources	Item 4
Class	Part 1 (open)	15 March 2017

## **1. Purpose of the report**

- 1.1. The purpose of this report is to update the members of the Public Accounts Select Committee (PASC) on the work of the Audit Panel at their March, June, September and December 2016 meetings.

## **2. Recommendations**

- 2.1. It is recommended that the PASC note the contents of this report.

## **3. Background**

- 3.1. Under the Terms of Reference (ToR) in the Council's Constitution as at May 2016, the Audit Panel is required to report to the Public Accounts Select Committee (PASC) where appropriate.

- 3.2. Audit Panel review and advise the Council on the Internal Audit function, control environment, External Audit and the Council's final accounts, Risk and Anti-fraud policies and procedures. The Audit Panel is also required to review the Council's Constitution in respect of audit procedure rules, contract procedure rules, and financial regulations.

- 3.3. PASC are required to scrutinise the effectiveness of the Audit Panel. The link below takes you to the Council's constitution, which contains the Terms of reference for both Audit Panel and PASC.

<http://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/Documents/Constitution.pdf>

- 3.4. The Audit Panel consists of six non-executive councillors, one of whom is the Chair (currently Councillor Jonathan Slater), and three independent members (although it can contain up to four independent members). The two new independent members for 2016/17 were the former Technical Director of the Audit Commission and Director of Finance of Goldsmiths. The technical insights of the independent members are valued and appreciated by the Panel who extend their thanks to the independent members for their continued support.

## **4. External Audit and the Council's Final Accounts**

- 4.1. The final accounts and external audit work follow a regular cycle throughout the year. This covers accounts planning and interim audit work in the early Spring, preparation of the draft final accounts in late Spring, final accounts audit work in the Summer, final audit findings, recommendations and opinion in the Autumn, and the Whole of Government Accounts certification and grants certification work in the Autumn / Winter.

- 4.2. The following paragraphs briefly outline the reports and findings reported to each Audit Panel meeting in the year. The Council's appointed external auditors are Grant Thornton.

#### March 2016

- 4.3. At this meeting two reports were received, one gave an update on the final accounts planning and the interim external audit work and the other reported on the grant claims certification audit work. It was noted that the statutory deadline for final accounts and completion of external audit would be brought forward with effect from next year 2017/18, and therefore the closing timetable for 2016/17 would reflect this change, in order to act as a 'dry run' for 2017/18. Other than this, no significant issues were reported.

#### June 2016

- 4.4. The Panel received and noted the Pre-Audit Statement of Accounts (including the policies and notes). The position on general fund reserves was noted. The external audit plan report was also received and noted.

#### September 2016

- 4.5. The Panel received the findings and key matters arising from Grant Thornton's audit work on the Main accounts and the Pension Fund accounts. It was anticipated that both sets of accounts would be given an unqualified audit opinion. The key areas highlighted by the external auditors and agreed by officers were:
- on the Main accounts, there were a number of accounting errors relating to property, plant & equipment,
  - because of the enhanced closing timetable, the accounts and external audit process was further advanced compared to the previous year 2014/15, and
  - the audit of the Pension Fund accounts had been successful, with only minor errors found.
- 4.6. Officers responded that staff reductions / loss of experience had been a contributory factor in the errors in the accounts, but the enhanced accounts deadline had nonetheless been achieved by officers and bank reconciliations had been kept up to date.
- 4.7. There was some discussion between the Panel, auditors and officers concerning the possible effect of staff reductions, particularly with regard to financial controls and segregation of duties, and managing risks associated with the Brent IT contract and the six borough Oracle contract.
- 4.8. Accepting the above and noting the officers' planned actions, the Panel noted the expected unqualified opinions for both the financial statements and value for money work from Grant Thornton and requested an update from officers of the issues raised at the next Audit Panel.

## December 2016

- 4.9. The Panel received Grant Thornton's Annual Audit Letter which confirmed that unqualified opinions on the accounts and Value for Money conclusion had been issued. It reported that significant adjustments had been necessary in respect of property, plant & equipment, NNDR and grant income. It also reported that the Council's submission for the HM Treasury Whole of Government Accounts was consistent with the final accounts, and that the grant claims audit work was largely complete.
- 4.10. The Chair of the Audit Panel met with the external auditors independently ahead of this meeting. No issues arising from this discussion required tabling at the subsequent meeting. In line with recognised good governance practice, these meetings will continue on an annual basis.

## **5. Internal Audit Service**

### March 2016

- 5.1. Unfortunately, this meeting was not quorum. A meeting did take place for information purposes only. However, all items that needed the Audit Panel's approval were taken to the June 16 meeting.

### June 2016

- 5.2. Internal audit are required every five years to have an independent external assessment against the Public Sector Internal Audit Standards (PSIAS). This took place in February 2016 and confirmed that the service met the standards. A number of unconditional (advisory) recommendations were made. Of the recommendations made, two were for the Audit Panel to consider:
  - The Audit Panel and Internal Control Board should consider holding in-camera meetings with the Internal Audit Contract Manager to ascertain if this manager has any concerns as to the independence of the present arrangements.
  - The Audit Panel should consider annually completing an effectiveness assessment that includes an assessment of the effectiveness of the internal audit service and Head of Internal Audit.
- 5.3. The Audit Panel agreed with the first point; the Chair should meet with the Internal Audit Contract Manager at least annually. For 2016/17 this happened prior to the meeting in September. The Audit Panel deferred discussion of second point.
- 5.4. The Audit Panel received the internal audit annual assurance report. The Head of Corporate Resources (Head of Internal Audit) gave a 'Limited' opinion on the controls across the Council. This was down from the 'Satisfactory' opinion of previous years.
- 5.5. It was agreed that there would be a mid-year follow-up reported to the Panel on the three major core financial audits that had negative assurance opinions. They were: Accounts Payable; Accounts Receivable; and Banking. This would be in addition to the annual follow up work to keep a focus on the improvements agreed for these financial controls.

- 5.6. Based on a number of common audit findings, Members also questioned the approach and effectiveness of Contract Management in the Council and requested a briefing on current arrangements within the Council and identified good practices for local government.
- 5.7. The Audit Panel approved the internal audit plan and adopted the internal audit charter for 2016/17.

#### September 2016

- 5.8. The Audit Panel noted that the pace of implementing recommendations appeared to be slowing and asked that this be monitored closely and, for audits with multiple delays, that the responsible officer/s attend the next meeting to explain.
- 5.9. Members agreed not to implement the recommendation from the PSIAS report relating to an annual effectiveness self-assessment.
- 5.10. The Head of Financial Services and Head of Public Services updated members on the work in progress for the core financial systems flagged in the internal audit annual assurance opinion (see above for June). While there remained some finance system issues to resolve to close the recommendations, assurances were given that progress is being made and, although there was a lot of work to do, the officers hoped to complete it as soon as possible.

#### December 2016

- 5.11. While the number of overdue recommendations had reduced considerably, which is welcome, Members reiterated that it was important that the relevant officers attend the Audit Panel to explain significant delays in the implementation of recommendations. Members also requested that a summary of any recommendations that relate to controls in respect of the segregation of duties should become a standing item in the internal audit updates.
- 5.12. The Overview and Scrutiny Business Committee had requested that the annual internal audit report to Schools' Forum also be reported to the Audit Panel for information. This was done at the December meeting as the next available meeting following the October Schools Forum meeting.

### **6. Counter Fraud Arrangements**

- 6.1. At each meeting the Panel reviews and asks questions of the Head of Corporate Resources on the update report for investigations completed and in progress by the Anti-Fraud & Corruption Team.

#### March 2016

- 6.2. The Panel were informed that a joint prosecution had been successfully concluded with the Royal Borough of Greenwich and that £153k had been recovered as Proceeds of Crime which would be shared between the boroughs. The Lewisham element of this recovery would be reinvested in the team in 2016/17, when the

DCLG grant monies would no longer be available, to continue to pursue housing tenancy frauds.

#### June 2016

- 6.3. Lewisham's Anti-Fraud arrangements were published in the report as required by the Local Government Transparency Code. The Panel discussed the risk of fraud in the areas of Right to Buy, subletting, and tenancy succession.

#### September 2016

- 6.4. The Panel discussed the notional savings used to record tenancies recovered by the team and noted that the work had a positive impact on the housing waiting list as properties able to be recycled were then available for legitimate tenants.
- 6.5. The Panel noted that regular Fraud Awareness training is made available to frontline officers.

#### December 2016

- 6.6. The Panel discussed approached to data analysis to detect fraudulent activities. The Panel agreed to move to an annual update from the Anti-Fraud & Corruption Team to form part of the June annual assurance report.

### **7. Financial Regulations and Contract Procedure Rules**

- 7.1. The Head of Corporate Resources is responsible for maintaining the Finance Regulations, Scheme of Delegation, and Contract Procedure Rules. These were reviewed and updated in 2015 and submitted to the Constitution Working Party to be approved and onto full Council in January 2016 where they were adopted.
- 7.2. The next full review is starting not and will be in 2017/18, in part as there were no major reorganisations in 2016 requiring them to be updated. In the meantime the procurement handbook and guidance has been updated in 2016/17 to reflect the service level agreement with the London Borough of Lambeth and changes in OJEU limits.

### **8. Statement of Internal Control (SIC) / Annual Governance Statement**

- 8.1. The statement of internal control now forms part of the wider Annual Governance Statement (AGS) published each year as part of the Council's financial statements. The draft AGS relating to 2015/16 was reviewed at the June Audit Panel meeting and agreed as final at the September meeting when the accounts were approved.
- 8.2. The AGS – in line with the external audit recommendation of the previous year – continues to be a short and concise summary of the key governance processes of the Council and two or three areas for continuous improvement. The main one for 2016/17 being the need for improvements in financial controls to address the findings of the auditors.

## **9. Other Business**

- 9.1. Looking forward the Audit Panel will continue to manage its work on a similar basis for 2017/18.

## **10. Legal Implications**

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

## **11. Financial Implications**

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

## **12. Equalities Implications**

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

## **13. Crime and Disorder Implications**

- 13.1. There are no crime and disorder implications arising directly from this report.

## **14. Environmental Implications**

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

### **Background Papers**

The background papers are those tabled for the Audit Panel meetings in 2016/17.

<http://councilmeetings.lewisham.gov.uk/ieListMeetings.aspx?CId=148&Year=0>

If you have any questions about this report, please contact:

Selwyn Thompson, Head of Financial Services on 020 8314 6932, or

David Austin, Head of Corporate Resources on 020 8314 9114.