

MINUTES OF THE AUDIT PANEL

Tuesday, 21 March 2017 at 7.00 pm

PRESENT: Councillors Jonathan Slater (Chair), Helen Klier (Vice-Chair), Bill Brown, and Mark Ingleby, Ian Pleace and Stephen Warren

Apologies for absence were received from Councillor Chris Barnham and Paul Dale

21. Minutes

Action - Minutes 13 - External Auditor's Reports on 2015/16 Accounts

The Head of Corporate Resources informed Panel Members that as part of their efforts to look at alternative ways of recruiting additional resources, officers were looking at incorporating CIPFA trainees into the Apprenticeship Scheme through the accreditation process. He also informed them that interviews had taken place for two positions in the finance section. As a result offers had been made to these positions. He said these positions would help to support work in the section.

Action - Minutes 14 – Internal Audit Update

The Head of Corporate Resources said the segregation of duties update had been incorporated within the Internal Audit Update report.

Action - Minutes 18 - External Audit Letter 2015/16

Darren Wells informed the Panel that Grant Thornton had done some helpful publications on income generation and he would be happy to send a copy to Councillor Ingleby.

Action - Minutes 18 - External Audit Letter 2015/16

The Head of Corporate Resources told members that with the assistance of Grant Thornton a joint training session for officers was held 2 weeks ago. He said all officers were now acquainted with the new closedown process, and validity of closedown plans were in progress and the Council was set to go.

The Acting Group Finance Manger – Core Accounting informed Panel Members that officers specifically focussed on some of the key issues from past experience, and review and research work had been done to address these. He said officers would ensure records are good and would try to improve on everyday work. Panel Members were told the deadlines for this year would be similar to last year's, if there were any delays it would be because of quality issues. It was also noted that an experienced member of staff had been added to the team.

RESOLVED that the minutes of the meeting held on 6 December 2016 that was open to the press and public be confirmed as an accurate record subject to the following amendments;

Minutes 18 paragraph 1 delete second sentence.

Paragraph 4, first sentence to read “Councillor Ingleby asked if Grant Thornton could provide some useful information on income generation that would be helpful to the Council with its ongoing savings programme”.

Paragraph 6 last sentence to read “The Audit Manager, Grant Thornton said the NHS closedown was in May”.

22. Declarations of Interests

Councillor Ingleby declared a personal non pecuniary interest in item 5 as he had been a victim of a rogue landlord.

23. Update on 2016/17 Closing of Accounts and External Audit

The Acting Group Finance Manager–Core Accounting informed Panel Members that officers were seeking to improve areas where problems were identified last year. He said the interim audit was in progress and no problems had been flagged up to date. He added that the timetable would be the same as last year’s.

Darren Wells, Director, Grant Thornton explained that they looked at 3 stages, the first being risk management and understanding the environment. At the second stage they did early testing, expenditure and income systems. He said key stages and elements were tested to allow earlier closure, and this work was still in progress. He said the rest of the report highlighted some developments in the wider context.

Ian Preece said if the Panel see the plan at their next meeting in June it would be too late for them to influence the process, as Panel Members had agreed there would be a dry run this year. Stephen Warren said with the deadline being 31 July the template should be with Panel Members at an early stage. Following discussion it was agreed that the internal procedures and approach would be sent to Panel members in May, with the draft statement presented at the June meeting.

Action >>>>> Head of Corporate Resources

Councillor Ingleby asked whether the slide on page 29 of the report showing national developments referred to the investment part of the Pension Board and was told it reflected an accounting standard of last year’s assets and valuation, plus the disclosures made in the pension fund. Darren Wells also explained off-payroll working and salary sacrifice in the public sector in answer to a question from Councillor Ingleby. Darren Wells pointed out that there was a risk element associated with this change.

The Head of Corporate Resources stated that they had already lost 2 of their contractors who were unwilling to take a cut in their salary due to this change. Councillor Brown asked if the Council had a lot of workers on temporary contract and was told although there was a reduction following a review a few years back the numbers have grown recently because of capability shortage. The Head of Corporate Resources said this tend to happen following big changes in organisations.

The Chair said he was aware that the Audit Panel had done a review of consultants working for the Council and was under the impression the numbers had been reduced. He said it would be useful for Panel Members to get an update on the number of Consultants currently working for the Council and the salaries at their next meeting. The Head of Corporate Resources said he was aware that this information may be going to Mayor and Cabinet or Sustainable Development Select Committee as part of the Annual Pay report in June and he would find out.

Councillor Ingleby asked whether this was a threat to the Council, and asked Darren Wells if this trend was the same in other local authorities. Mr Wells said they do not have any data on this at present but he could find out.

Action >>>>> Grant Thornton

The Chair said Audit Panel could revisit this issue to see what was taking place. He said self employment had increased dramatically and it would be good to find out what was happening in the Council.

Action >>>>> Head of Corporate Resources

24. Grant Thornton's Certification of Work for LBL for Year Ended 31 March

Darren Wells introduced the report. He stated that there had been improvements since previous years but unfortunately the infrastructure was prone to errors. He said this was not significantly different from other local authorities, and constant work was needed to improve the compilation and process.

Mr Pleace asked if the qualifications were the norm and was told by Darren Wells that there was a broad process of testing, wherein the auditors take initial testing of all the cells in the grand scale of things and if there is 1 mistake found, they have to do 40+ testing of that cell and another 40+ of every error type found. He added that this could be very time consuming and this was a requirement of the DWP. Councillor Klier said this was a very rigid process. Stephen Warren commented that there were specified procedures which had to be followed, and DWP were paying the subsidy.

Stephen Warren said he had noted that the Council have qualifications each year and dispose of records every 6 years. He said the Council was taking a risk in disposing these records within 6 years. The Head of Corporate Resources said this was a deliberate choice in terms of their financial records, as they had decided to draw a line, and they then move forward. Mr Warren said as long the decision had been consciously taken he would be satisfied. He asked whether there were electronic records kept and was told there were but they too were disposed of after 6 years.

RESOLVED that the report be noted.

25. Internal Audit Update and Plan

The Head of Corporate Resources introduced the report. He highlighted that officers were 3 weeks behind where they wanted to be but were confident they

would complete the work by end of April, to be ready for the Panel meeting in June. He informed Panel Members that segregation of duties and reconciliations would be included in this update going forward.

The Head of Corporate Resources said follow ups for audit recommendations continued to go well but officers have discovered that some managers were prolonging their work-in-progress phase to delay things. He said there were 4 superseded recommendations which had required the manager to be brought to this meeting but unfortunately the Manager was on holiday. The Head of Resources said this would be follow up for the next meeting.

The Chair asked Mr Pleace and Mr Warren if they knew of anyone that would be interested to fill in the Independent Panel Member vacancy, meanwhile the search would continue.

The Chair said he was concerned about the budget deficits facing Sedgehill and Forest Hill schools, he said with the changes to the national schools funding formula other schools could be at risk. The Chair asked how this was being addressed. The Head of Corporate Resources said this would be discussed at the Schools Forum and it has been included in the Public Accounts Select Committee Work programme for the next municipal year.

The Head of Corporate Resources said the Council had strengthened its budget monitoring for schools. He added that although the Council could put in sanctions as a last resort, accountability lay with the Headteacher and Board of Governors. Councillor Brown said this information had been in the public domain for a while and Councillors were being asked how they had allowed the deficits to happen, and what they intend to do to address the problem.

The Head of Corporate Resources said unfortunately he had not got information on hand to update Panel Members but would do an update to be circulated to Panel Members. Councillor Brown said it would be useful to include information on what Members could have done to avoid this situation. The Head of Corporate Resources said he would do a briefing specifically for Forest Hill school, plus a general overview to be circulated to Panel Members.

Action >>>>> Head of Corporate Resources

Councillor Brown asked how schools get funded, and was told that there were two sections of the education budget, one of them is based on the number of pupils in the school, this budget is currently held centrally by the Council, and the second budget for special aid goes directly to the schools. He said from 2018/19 the new funding formula would be in place and all the money would go directly to the school, the school would then pay for services provided by the Council. The Chair said he had noted that despite control being with the schools when things go wrong the local authority gets blamed.

Mr Pleace said as part of segregation of duties if the supplier access control was not secure then the Council was running a fraud risk. The Head of Corporate Resources said officers could get a systems resolution. He said currently only 5 people could change suppliers details, and managers were trying to keep it as manual segregation.

In response to Councillor Ingleby's question about compliance with the Code of Connection and Public Sector Network, the Head of Corporate Resources explained that because the Council had to meet high level standards set by this code to avoid security risk sometimes the IT system might not look as if it was functioning well, but things were constantly being monitored to avoid hacking.

Councillor Ingleby asked if the Panel could get an update on progress about Houses in Multiple Occupation especially on rogue landlords. He said he had been a victim of a rogue landlord. The Head of Corporate Resources said other Councils had been more successful in this area than Lewisham, as officers had discovered that the persistent offenders were very cunning and knew how to avoid being prosecuted. He said in the end officers had to settle for one of the offenders being named and shamed, which was a step forward.

RESOLVED that the report be noted.

Any Other Business – New Bermondsey CPO

Mr Pleace stated that in connection with the Millwall and Renewal issue which had been consistently in the national press, as Independent Panel Members any aspect of the Council's financial arrangements would be associated with them. He asked for assurance that the Audit Panel had nothing to be worried about, and the appropriate sensible decision had been made. The Chair explained that the Council had agreed to have an Inquiry into the process and up to £1/2m had been put aside to fund this.

Mr Warren asked if the Council would be able to balance the independence of the budget and the person holding the Inquiry. Panel Members requested the Head of Corporate Resources to find out the following:

- i. what controls have the Council put in place to efficiently and effectively manage the cost of the Inquiry.
- ii. what controls have the Council put in place to ensure the cost would lead to an independent Inquiry.

Action >>>>> Head of Corporate Resources

The Chair informed the Panel that this would be Councillor Brown's last Audit Panel meeting. He thanked Councillor Brown for all his work as a Panel Member.

Meeting ended: 8.50pm

Chair.....