

<b>Public Accounts Select Committee</b>		
<b>Report Title</b>	<b>Report on the work of the Audit Panel</b>	
<b>Key Decision</b>	<b>No</b>	<b>Item No. 6</b>
<b>Ward</b>	<b>None</b>	
<b>Contributors</b>	<b>Head of Financial Services and Acting Chief Finance Officer</b>	
<b>Class</b>	<b>Part 1</b>	<b>20 March 2019</b>

### **Reasons for lateness and urgency**

This report is late in order to enable officers to ensure the detail contained within the report is a full and accurate summary of the work of the Audit Panel through the year.

The report is urgent and cannot wait until the next meeting of the Public Accounts Select Committee as that is not until the next fiscal year and it is within the terms of reference of the Audit Panel to update the Committee each year.

Where a report is received less than five clear working days before the date of the meeting at which the matter is being considered, then under the Local Government Act 1972 Section 100 (b) (4) the Chair of the Committee can take the item as a matter of urgency if they are satisfied there are special circumstances requiring it to be treated as a matter of urgency. These special circumstances have to be specified in the minutes of the meeting.

### **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, July, September and December 2018 meetings.

### **2. Executive Summary**

- 2.1. The report sets out the topics covered by the work of the Audit Panel from March 2018 (2017/18) to December 2018 (2018/19). From these the highlights to note are:
  - The changes to the Chair and Deputy Chair in June 18 following the Annual General Meeting for 2018/19;
  - The preparation of the financial statements by Council officers for audit and the unqualified financial audit opinion and the anticipated qualified 'by exception' Value for Money opinion;
  - In addition to monitoring the work of internal audit and the coverage of their risk based work, the Panel noted the Satisfactory annual assurance opinion of the Head of Internal Audit; and
  - The Panel also held more detailed discussions through the year on the:
    - Catford Regeneration Partnership Ltd;
    - Oracle Cloud project;
    - Corporate Risk Strategy;
    - Whistleblowing policy;
    - Constitutional amendments; and
    - Audit Panel's Terms of Reference.

### **3. Recommendations**

- 3.1. It is recommended that the PASC note this report.
- 3.2. It is recommended that PASC discuss the points to be raised by the Chair of the Audit Panel in respect of the Catford Regeneration Partnership Limited company (as noted in section 10) and consider any further action to be requested of officers.

### **4. Background**

- 4.1. Under the Terms of Reference (ToR) in the Council's Constitution as at November 2018, the Audit Panel is required to report to the Public Accounts Select Committee (PASC) where appropriate.
- 4.2. Audit Panel review and advise the Council on the Internal Audit function, control environment, External Audit and the Council's accounts, risk and anti-fraud policies and procedures.
- 4.3. PASC are required to scrutinise the effectiveness of the Audit Panel.
- 4.4. The link below takes you to the Council's constitution, which contains the Terms of reference for both Audit Panel and PASC.  
<https://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/Pages/Our-constitution.aspx>
- 4.5. The Audit Panel consists of six non-executive councillors, one of whom is the Chair (currently Councillor Hall), and three independent members, although it can contain up to four independent members.

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

- 5.1. The final accounts and external audit work follow a regular cycle throughout the year. This covers accounts planning and interim audit work in the late Winter and early Spring, preparation of the draft final accounts in Spring, with the accounts audit work, audit findings, recommendations and opinion to be completed by the end of July, and the Whole of Government Accounts certification and grants certification work in the Autumn.
- 5.2. 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 2018

- 5.3. At this meeting Grant Thornton introduced their external audit plans – no specific significant risks were identified for the 2017/18 accounts. There was also an update from Grant Thornton on the housing benefit subsidy claim certification for 2016/17 – the level of errors was consistent with the previous three years, and Panel Members asked what action was being taken to address this problem; officers replied that there were quality control and other measures being considered.

#### July 2018

- 5.4. The Panel received and noted the Pre-Audit Statement of Accounts and Annual Governance Statement (including policies and notes) – these had been submitted for audit at the end of May in accordance with the statutory deadline and circulated to members. Grant Thornton presented their audit draft findings reports and indicated that their audit work was on track.

#### September 2018

- 5.5. The Panel received the findings and key matters arising from Grant Thornton's audit work on the Main Accounts and the Pension Fund Accounts – these reports had been updated since the July version. Grant Thornton stated that they had not been able to complete their audit work by the end of July because of a number of factors, such as implementation of the new Oracle Cloud financial system. However, they anticipated issuing an unqualified audit opinion on the financial statements. Officers responded that they (the officers) had not been entirely happy with some aspects of the audit, such as lack of a detailed audit plan for monitoring and some late requests for information. Panel Members noted the findings, and took the opportunity to ask Grant Thornton for their views on the Council's financial position and budgetary issues such as use of reserves and achieving future savings.
- 5.6. Grant Thornton reported on their draft Value for Money conclusion, in particular in respect of savings and the budget, but were delaying the issuance of their final opinion at this time to enable management to complete their review the governance arrangements of the Council's transformation work to enable the Executive Management Team's internal review to be completed first. This may result in a qualified 'by exception' Value for Money opinion for 2017/18.

#### December 2018

- 5.7. No reports were submitted in respect of final accounts and external audit. These were deferred to the March 2019 meeting. In the interim, not to delay their consideration, the Chair arranged an informal meeting of Panel members with the external auditors but not officers present, as is appropriate. The reports form part of the Audit Panel agenda for March 2019 and Council's management responses should be included.

### **6. Internal Audit Service**

#### **March 2018**

- 6.1. The Acting Chief Finance Officer (in his capacity as Head of Audit) supported by the internal audit manager presented the Internal audit update report which reported on the following:

#### Progress against the corporate internal audit plan for 17/18

- 6.2. The progress against the corporate audit plan was in line with the previous year. The plan was expected to be completed in time for the annual assurance report. There was one audit cancelled, six audits deferred to the 18/19 plan, and a further four to be considered for the 18/19 plan. There was no additional work.

### Progress of implementation of corporate internal audit recommendations

- 6.3. There were 159 open recommendations at the end of February 18. Of these, 54 (34% were overdue), which was an increase from the previous meeting which was 23%. Of the 159 open recommendations, it was found that 30% of them were taking 12 months of more to implement. This is an increase from the previous meeting of 23%.

### Progress against the schools' audit plan for 17/18 and progress against recommendations

- 6.4. The remaining school audits were due to be completed by year-end, by both Royal Borough of Greenwich and the in-house team. There were 99 recommendations open of which 60 (61%) were overdue. This is in line with the previous meeting.

### Audit Plan for 18/19

- 6.5. The Head of Corporate resources introduced the draft plan for 2018/19 explaining that it had been prepared based on meetings with all Directors and Heads of Service, review of the Corporate and Directorate risk registers, and anticipated changes in service plans. The plan had approximately 1,000 days of internal audit across all areas – core financial, IT, services, advisory and schools reviews in a total of approximately 95 pieces of work.

### Oracle Cloud

- 6.6. An update on the progress of Oracle Cloud was noted in the audit report. It detailed that the implementation was behind plan and the switch over from the previous system (Oracle R12). This delayed the internal audit work on Oracle Cloud.

### Any other business

- 6.7. Resources was an issue for both in-house team and contractor during the year due to higher than expected staff turnover. A new audit management software with action tracking was being implemented for use in 2018. User testing was underway.
- 6.8. This was the last Audit Panel meeting for the financial year 2017/18. The audit panel chair, Councillor Slater, thanked all for all their contribution to the work of Audit Panel.

### July 2018

- 6.9. Councillor Hall was appointed Chair, with Councillor Ingleby as the Vice Chair, of the Audit Panel for 2018/19. As in previous years, and in line with good practice, the Chair met privately with the external auditors and internal audit manager to hear their opinions directly without officers present.

### Progress against the corporate internal audit plan

- 6.10. The 2017/18 corporate audit plan was nearly finalised with only two outstanding, one at draft and the other was delayed due to trying to obtain information from the old Oracle system.

### Progress of implementation of internal audit corporate recommendations

- 6.11. There were 167 corporate open recommendations as at 22/06/18. Of these, 68 (41%) were overdue. This is the highest amount of overdue recommendations in the last rolling year. There are 64 (30%) recommendations that are taking over 12 months to implement.

### Progress against the schools' audit plan for 18/19 and progress against recommendations

- 6.12. The 17/18 schools' plan was completed. It was the first year with no Limited or No Assurance reports. The schools' plan for 18/19 was underway. There were 142 recommendations open of which 65 (46%) were overdue. This is a decrease from the previous meeting.

### Audit Plans for 18/19

- 6.13. The audit plan was re-presented with the additional detail on the individual audit scopes as requested by the audit panel. The plan consists of 753 days of corporate audits (including management time), and 148 days of school audits. The planned split between in-house and contractor was 664 to 237 respectively. The audit plan was approved.

### Internal Audit Charter

- 6.14. Members approved the Internal Audit Charter for 18/19. There were no significant changes from the previous year's charter.

### Annual Assurance Report

- 6.15. The Head of Corporate Resources presented the annual assurance report. The overall opinion was 'Satisfactory', an improved opinion on the last two years, when it was 'Limited'. The opinion for schools continues to be 'Satisfactory'.
- 6.16. The opinion was qualified. The Head of Corporate resources stated that internal audit service did not complete as many audits as originally planned due to resourcing issues and delays to some service changes.
- 6.17. Areas for improvement relating to the annual governance statement were similar to last year. The areas being: Budget Monitoring; Procurement and Contract Management; Information Technology and Information Security; and Financial Control.
- 6.18. The internal audit service improvement programme aims to continue to develop the in-house team and implement the new internal audit management software.

Any other business

- 6.19. The annual summary of internal audit work for schools was reported to Schools' Forum. It detailed the schools audit plan, audit opinions, and common findings.

**September 2018**

Progress against the internal audit corporate plan

- 6.20. The Head of Corporate Resources reported that the 2017/18 corporate audit plan was complete. The 2018/19 audit plan was underway with 10 out of the 50 audit reviews in progress.

Progress of implementation of internal audit recommendations

- 6.21. The percentage of overdue recommendations to open recommendations had gone down from the 41% from the previous meeting to 30%. The aged analysis report show that 35% of recommendations are taking over one year to implement from the final report.

Progress against the schools' audit plan for 18/19 and progress against recommendations

- 6.22. The schools' plan for 18/19 was underway, with at least 12 audits at least to fieldwork stage. There were 148 recommendations open of which 99 (66%) were overdue. This is an increase from the previous meeting, noting it covers the summer holiday period.

Any other business

- 6.23. A failed recruitment exercise for the in-house team over the summer needs to be rerun and puts pressure on the delivery of the audit plan.

**December 2018**

Progress against the internal audit corporate plan

- 6.24. The Acting Chief Finance Officer reported that out of the 53 corporate audits in the plan, 22 were underway, with delivery of the plan for the year under pressure with a lot of fieldwork to be completed in the fourth quarter.

Progress of implementation of internal audit recommendations

- 6.25. Of the 170 open recommendations, 47 (28%) were overdue recommendations. This was a slight decrease from the 30% from the previous meeting. The aged analysis report show that 38% of recommendations are taking over one year to implement from the final report. This was an increase from the 23% of the previous month.

## Progress against the schools' audit plan for 18/19 and progress against recommendations

- 6.26. The schools' plan had 19 audits underway and is on track. There were 234 recommendations open of which 160 (68%) were overdue.

### Any other business

- 6.27. The audit management system is working well in relation to the audit work. Delays to recruiting, training up new staff, maternity leave, introducing a new software system, high vacancies in senior roles within the council, has impacted on the delivery of the audit plan. As a result some audits have been delayed and additional work commissioned from the contracted provider, Mazars.

## **7. Counter Fraud Arrangements**

- 7.1. As previously reported to Public Accounts Select Committee the Audit Panel has moved to receiving an annual, rather than quarterly, report from the Anti-Fraud Fraud and Corruption Team. However, for the purpose of this report the workload of the team has been summarised in quarters as reported to the Internal Control Board. This will next be presented formerly to the Audit Panel in June 2019.

### March 2018

- 7.2. AFACT reported that the special investigations work is progressing well with employee cases holding at the same level. One fraud case has concluded at court with the person pleading guilty to all charges. Lewisham agreed their interest in joining the national CIPFA Fraud Hub to expand this work by pooling better intelligence and data.

### July 2018

- 7.3. The AFACT annual report to Audit Panel was included as part of the Annual Assurance report. This included detail of Lewisham's Anti-Fraud arrangements that were published in the report as required by the Local Government Transparency Code. The service focuses significantly on housing risks and also provides services to Lewisham Homes. The team investigation of staffing and procurement risks continues, as does the review of individuals offered jobs in the Council to support the HR recruitment process.

### October 2018

- 7.4. During this quarter, AFACT appeared in two episodes of the BBC programme Council House Crackdown. This has generated additional referrals to the team. The team also continued their programme of Fraud Awareness sessions by delivering two workshops to staff.

### December 2018

- 7.5. A-FACT conducted another proactive exercise targeting Blue Badge Fraud. This resulted in six cases of misuse being detected including one case suitable for prosecution.
- 7.6. The contractual negotiations, along with all London Boroughs, continue in respect of joining the CIPFA Counter Fraud Hub. It is understood that there have been

delays to the project that will impact our potential on-boarding date. Consideration is now being given to a subscription service but the details of this are yet to be confirmed

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

- 8.1. The Acting Chief Finance Officer is responsible for maintaining the Finance Regulations, Scheme of Delegation, and Contract Procedure Rules. The contract procedure rules were reviewed by the Constitutional Working Party (CWP) in November 2018 and the Financial Regulations and Schemes of Delegation updated in January to reflect the changes for interim management arrangements and to reflect the procurement changes. All of these were submitted to and approved by Full Council.

## **9. Annual Governance Statement**

- 9.1. The Annual Governance Statement (AGS) forms part of the Council's financial statements. The draft AGS for 2017/18 was reviewed at the July Audit Panel meeting and agreed as part of the final accounts.
- 9.2. 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 three or four areas for continuous improvement. These noted the satisfactory annual internal audit assurance opinion and the focus for the coming year to be on: management of risk and change; addressing external and internal audit findings to improve financial control; and review Council strategies to align with the new administration's priorities.

## **10. Other Business**

- 10.1. The updated Risk Management Strategy and Policy to 2020 was presented to the Audit Panel and agreed in March 18.
- 10.2. In July 18, the Head of Financial Services delivered a presentation on the Transition to Oracle Cloud project from the old finance system (Oracle R12). The Panel have requested updates on the project be a standing item for all meetings until it is completed.
- 10.3. In September 18, the Audit Panel reviewed the full internal audit report for the Catford Regeneration Partnership Ltd (CRPL) and requested a further update on the action points.
- 10.4. In October 18, the Councillor Hall, as Chair of the Audit Panel met Bill Roots and contributed to his report "Financial Control Review" see: <http://councilmeetings.lewisham.gov.uk/documents/s61471/04%20Finance%20control%20review%202012118.pdf> . This report with an action plan was considered by PASC in December and referred to Mayor & Cabinet.



- 10.5. In December 2018, the SGM Capital Programmes presented the follow up review on the CRPL to the audit panel. It detailed the progress made on the action points to date.
- 10.6. The Audit Panel made the following recommendation to the PASC: Audit Panel recommends that the Public Accounts Select Committee be requested to look into the operation of the Catford Regeneration Partnership Limited. The Chair of the Audit Panel reported informally on this discussion to the February PASC meeting with the request for a fuller discussion by members, as part of this report, to be taken at the March PASC meeting. This was agreed.
- 10.7. Also in December, at the request of the Chair, the Constitutional changes (including those to the Contract Procedure Rules), the current and up to date Council's whistleblowing policy, and the Panel's Terms of Reference were presented for discussion and noted.
- 10.8. Following informal discussions hosted by the City of London Corporation, the London Authority Audit Chairs' group was established and Councillor Hall is an inaugural member.
- 10.9. Looking forward to 2019/20, it is anticipated that the Audit Panel will continue to manage its work on a similar basis for 2018/19, with the ongoing support of independent members on the Audit Panel, and the London Authority Chairs' group.

## **11. Legal Implications**

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

## **12. Financial Implications**

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

## **13. Equalities Implications**

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

## **14. Crime and Disorder Implications**

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

## **15. Environmental Implications**

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

## **16. Background Papers**

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

16.2. If there are any queries on this report, please contact Selwyn Thompson, Head of Financial Services on 020 8314 6932 or David Austin, Acting Chief Finance Officer on 020 8314 9114.