



Public Accounts Select Committee

Report title: Report on the work of the Audit Panel.

Date: 17 March 2021

Key decision: No

Class: Part 1

Ward(s) affected: None

Contributor: Director of Corporate Services

Outline and recommendations

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 meetings in 2020/21.

It is recommended that the PASC note this report.

REASONS FOR URGENCY AND LATENESS

Lateness: This report was not available for the original dispatch as officers were late in compiling the report.

Urgency: It will be helpful for the PASC to note the ongoing work of the Audit Panel in these challenging Covid-19 times and the risks to the Council's control framework reported to them. This will support the PASC wider scrutiny of the Council's use of resources and capture any feedback for the Audit Panel ahead of the work plans for 2020/21 being finalised.

Where a report is received less than 5 clear 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 matter as a matter of urgency if he is satisfied that 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. Summary

1.1. The report sets out the topics covered by the work of the Audit Panel from March 2020 to February 2021. From these the highlights to note are:

- The work of the committee continued despite the difficulties and impact of Covid-19 on the work of the Council, in respect of both its quarterly meetings and discussions ‘in camera’ with the auditors without other officers present;
- There was impact to the work of officers and auditors which led to the delayed completion of the 2019/20 internal audit programme, late start and truncated internal audit plan for 2020/21, and the delayed completion of the external audit of the financial statements for the 2019/20 year;
- The audited financial statements received an unqualified financial audit opinion and value for money conclusion, along with the audit certificates for all audits from 2016/17 to 2019/20 following the closure of the open public questions with not further work required;
- In addition to monitoring the work of internal audit and the coverage of their risk based work, the Panel noted the satisfactory but qualified annual assurance opinion from the Head of Internal Audit due to the restricted amount of work able to be completed;
- The Panel also held more detailed discussions through the year on the:
 - Implementation of the Oracle system;
 - Limited core financial internal audit reports;
 - Corporate risk register and mitigations; and
 - Cyber security risks.
- The Panel was not able to complete the work it had planned in 2020/21, mainly due to the impact of Covid-19 on officer time, to see its terms of reference changed so the Panel becomes a full Committee or to fully consider the impact of the Redmond review published in 2020. Both of these activities carry over as priorities for 2021/22; and
- The Chair and Councillors continue to recognise and thank the independent members for their insightful and valued contribution to the work of the Panel.

2. Recommendations

2.1. It is recommended that the PASC note this report

3. Policy Context

3.1. This report supports the council’s corporate strategy in relation to Governance.

[The council's strategy](#)

4. Background

4.1. Under the Terms of Reference (ToR) in the Council’s Constitution, the Audit Panel is

Is this report easy to understand?

Please give us feedback so we can improve.

Go to [Feedback on our reports](#)

- required to report to the Public Accounts Select Committee (PASC) where appropriate.
- 4.2. The Audit Panel is responsible for reviewing and advising 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.
[The council's constitution page](#)
 - 4.5. The Audit Panel met regularly through 2020/21 with meetings on the 12 March, 30 September, 4 November, and 11 February. The June meeting was missed due to the restrictions on the number of Council meetings due to the Covid-19 pandemic.

5. External Audit and the Council's Final Accounts

- 5.1. The final accounts and external audit work follows 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. This cycle was interrupted for 2020/21 and the audit of the 2019/20 financial statements delayed due to the impact of Covid-19. The draft accounts for audit were issued in August with the final opinion, audit reports and financial statements agreed by Council in November 2020. These include the Council accounts, the group accounts to incorporate the Council's limited company subsidiaries (Lewisham Homes and the Catford Regeneration Partnership), and the Pension Fund. This work was completed on time within the revised national Covid-19 timetable for the end of November.
- 5.3. The external auditors, Grant Thornton, presented at each meeting. In March on the audit plan for the 2019/20 accounts and progress with interim work. In September on the progress of the audit and outstanding work to be completed. In November on the audit findings and recommendations and conclusions of the audit work. In February handing over the completion report for the 2019/20 audit and outlining the risks and plans for the 2020/21 audit work to start in March.
- 5.4. The unqualified audit opinion and value for money conclusion on the 2019/20 audit within the revised national deadlines was noted and welcomed by the Panel.
- 5.5. Nonetheless, there were areas for improvement identified for which detailed action plans have been prepared and monitoring of progress as a standing item for meetings introduced. The key risks noted for 2019/20 were in respect of some IT controls, having up to date procedures for new system and procedures, the number of adjustments required to the accounts, and need for more management review of the draft accounts.
- 5.6. Grant Thornton also shared their response and improvement plans to the findings of the Financial Reporting Council review of auditing standards in the UK which reported in 2020 and outlined the key reporting and accounting changes expected for the 2020/21 accounts audit to start in March.

Is this report easy to understand?

Please give us feedback so we can improve.

Go to [Feedback on our reports](#)

6. Internal Audit Service

- 6.1. The internal audit work for the year was disrupted by Covid-19. The whole team were seconded to supporting the delivery of critical services from March to May. Work resumed in June to complete the priority audits outstanding from the 2019/20 audit plan. This was reflected in the satisfactory but qualified for reduced coverage annual assurance opinion for the 2019/20 year.
- 6.2. Work on the 2020/21 plan did not start until September and on a reduced ambition to reflect the late start in the year and not undertaking school audits this year as they are not operating as normal. The focus being on the core financial system audits, contract management and IT controls for 2020/21. The 2020/21 annual opinion is expected to be reported at the June meeting of the Panel.
- 6.3. Later in the year, with the continuation of the Covid-19 response and additional government funding, elements of the internal audit plan were amended to include additional work on certain Covid grant funding. These changes were reported to the Audit Panel. Disruption and delays to delivery of the full 2020/21 audit plan continue as services teams continue to be pulled away on priority Covid work and by the challenges of completing some audit work while everyone is working remotely.
- 6.4. A new interim Head of Internal Audit joined in September on secondment from PwC. This has helped with capacity and addressing the potential for conflicts of interest when the role was with the Director for Corporate Services. The service has reported on progress at each meeting of the Audit Panel.
- 6.5. In addition to the regular reporting against the plan, the Audit Panel looked in more detail at two areas where they had concerns about management controls based on the internal audit findings. These were progress with the timely implementation of recommendations with the responsibilities of the Internal Control Board transferred to the Executive Management Team and limited assurance on some of the key financial income and payment activities audits.
- 6.6. In respect of the internal audit recommendations a fuller report was requested for the November meeting on the process being followed with Directorate and Executive Management Team support. The Panel continue to monitor progress with catching up on the backlog and staying on top in implementing recommendations in detail at each meeting. The latest position at the February continued to show improvement.
- 6.7. At the March and June meetings the Audit Panel took reports from the Director for Financial Services on the progress with implementing the payroll and HR modules of the Oracle Cloud platform. Progress with the finance system actions is now being tracked as part of the action plan in response to the external audit recommendations. At each of the November and February meetings the Audit Panel took the opportunity to invite the respective managers responsible for the services with limited assurance on some of the key financial income and payment activities audits. The managers explained the challenges and reasons for delay and actions being taken to complete the agreed actions. The Panel intend to continue with this approach going forward.

7. Counter Fraud Arrangements

- 7.1. As with the internal audit work, the counter team work for the year was disrupted. The whole team were seconded to supporting the delivery of critical services from March to May and since then at least one full time equivalent has been supporting the assurance work for reporting on the significant government business grants the Council has been responsible for distributing.

Is this report easy to understand?

Please give us feedback so we can improve.

Go to [Feedback on our reports](#)

- 7.2. As a result, the Audit Panel received the 2019/20 annual report on the work of the Counter Fraud service at their September meeting. There were no major changes to report with the focus continuing on employment, benefits, housing and procurement cases. The next annual report will be presented to the Audit Panel in June.

8. Risk Management

- 8.1. For 2020/21 the Audit Panel introduced a review of the corporate Risk Register as a standing item for all meetings. This is in line with the CIPFA good practice guidance and supports the alignment and prioritisation of audit work to risk.
- 8.2. The Council's corporate risk register is updated quarterly and approved by the Executive Management Team. The Audit Panel were introduced to the Council's risk management strategy and the presentation of risks in the register by the Director of Corporate Services. At each meeting the most recent quarterly register was reviewed and interrogated by the Audit Panel.
- 8.3. The Audit Panel has agreed, in addition to the general quarterly review of risks, to request an officer report on a key risk for each meeting. At the February meeting the Panel received a report on the Council's technology infrastructure as it supports information security and governance. The Panel has requested a report on the Internal Control framework for the next meeting.

9. Financial Regulations and Contract Procedure Rules

- 9.1. The Chief Finance Officer is responsible for maintaining the Finance Regulations, Scheme of Delegation, and Contract Procedure Rules.
- 9.2. The contract procedure rules were reviewed and updated in 2020 for the temporary Covid-19 flexibilities introduced by government.
- 9.3. The Financial Regulations and Schemes of Delegation were not updated during the course of 2020/21 all arrangements were frozen while the Council has been focused on responding to the Covid-19 pandemic. This work is now scheduled for the first quarter of 2020/21 to update the regulations, schemes and procedures for the revised Council Directorate structures. These will be submitted to Full Council for approval.

10. Annual Governance Statement

- 10.1. The Annual Governance Statement (AGS) forms part of the Council's financial statements and was reviewed by the Audit Panel at their November meeting.
- 10.2. The AGS noted the following continuing priorities: delivery of the corporate strategy, plan and prepare for a balanced budget, embed operational changes with senior leadership changes, update payroll and HR policies and procedures for new system and ways of working, implement audit recommendations in a timely manner, and develop programmes to improve service and partnership working.
- 10.3. The work of the Audit Panel has and will play its part and support the Council deliver on these priorities.

11. Other Business

- 11.1. Despite the work completed in 2020/21 the Audit Panel were not able to complete all of

Is this report easy to understand?

Please give us feedback so we can improve.

Go to [Feedback on our reports](#)

their planned work. These priorities are therefore carried over into 2021/22 and include:

- Receiving a report on the impact and actions arising from the Redmond review for the assurance framework and work of the Audit Panel
- Including an additional meeting over the summer to enable sufficient time to look at the internal audit annual report and financial statements reporting as this is too heavy an agenda for one meeting with the other standing items;
- Receive the result of the work commissioned by M&C at the recommendation of PASC and the Audit Panel to review the status of the Panel and its terms of reference in line with good practice guidance; and
- Seek to recruit to the available fourth independent member post on the Panel as the work of the independent members continues to be a valuable and strongly appreciated contribution to the Councillor Members on the more technical aspects of the financial management arrangements of the Council.

12. Financial implications

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

13. Legal implications

13.1. There are no legal implications arising directly from this report.

14. Equalities implications

14.1. There are no equalities implications arising directly from this report.

15. Climate change and environmental implications

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

16. Crime and disorder implications

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

17. Health and wellbeing implications

17.1. There are no Health or Wellbeing implications arising directly from this report.

18. Background papers

18.1. The background papers to this report are the Audit Panel meeting records published on the Council's website. [Audit panel reports on the council website](#)

Is this report easy to understand?

Please give us feedback so we can improve.

Go to [Feedback on our reports](#)

19. Report author and contact

- 19.1. If there are any queries on this report, please contact David Austin, Director of Corporate Services on 020 8314 9114.

Is this report easy to understand?

Please give us feedback so we can improve.

Go to [Feedback on our reports](#)