

MINUTES OF THE AUDIT PANEL MEETING

Wednesday 23 June 2021 at 7pm

Present: Councillor Rathbone, Councillor Millbank, Councillor Hall, Carole Murray and Stephen Warren

Present remotely: Councillor Wise and Councillor Sheikh

Apologies: Ian Pleace, Councillor Gibbons

1. Election of Chair and Vice-Chair

Councillor Rathbone was nominated and elected as Chair of the Panel. Councillor Hall was elected as Vice Chair.

2. Declarations of Interest

Councillor Wise and Councillor Millbank declared an interest in item 4 as being in receipt of Lewisham Council Pension.

Stephen Warren declared interest in Item 3. He stated he was engaged in PSAA to undertake work advising on the potential impact on the changes in auditing and accounting.

3. Minutes

The minutes of the last meeting are to be amended as follows:

Page 6- specify "New" Code of Audit Practice

Page 8- change "close out" to "to ensure they have been actioned"

4. External Audit

The Key Audit Partner for Grant Thornton presented this report. The following was discussed:

The Audit Plan had been finalised and agreed with Management. It set out the significant risks for the audit of the Council's financial statements and of the Council's Pension Fund.

This is the first year of use of the new Code of Audit Practice, which governs the work auditors do in terms of the financial statements and Value for Money (VFM) conclusion. From a financial statements perspective the code is unchanged, however, the new code requires greater scope and emphasis on the work for VFM.

There are also changes in auditing standards and ISA 540. The standards under assessment include the management judgements that inform value for assets, pension liability etc.

The significant risks were listed in the report. With the exception of incomplete or inaccurate financial information transferred to the new payroll system, the risks outlined are the same as prior years. This risk is year-specific and arose because the Council changed its payroll system. Because of the size of the payroll figures it is an inherent risk, but not abnormal.

Auditors have determined financial materiality at the planning stage at £16m for Council and £16.3m for the groups which equates to approximately 1.5% of the Council's prior year gross expenditure.

The report sets out the key areas of focus for VFM work which may increase in scope as further work is performed. This includes, the Council's arrangements in response to the pandemic and capitalising from the different models of service delivery; the arrangements for setting the medium term financial plan; the arrangements for service transformation and cultural change; and the arrangements for working with key partners to deliver services efficiently.

The audit and logistics team remains the same with an additional member leading the onsite team as Audit Incharge. The increase in audit fees include enhanced work and cost of VFM. The fees are in line with other authorities.

When asked about timescales for audits for other councils, it was stated that there is a statutory inspection period for the Council where all Councils are required to have the accounts ready for public inspection. During that period, any member of the public can question the Council, raise an objection, or ask questions of the auditor. For most Councils, they will be audited from July.

The report was noted.

5. Progress on the External Audit Action Plan

The report outlined the progress of the 19/20 action plan, stemming from the external audit recommendations for that year.

The main action plan identified the relevant risks. The draft financial statements provided for audit continued to contain more misstatements than expected. A robust management review in terms of the preparation for the accounts and significant time for review has been built in. A draft statement for the accounts has been prepared as a result.

There has been a good response to Member's declarations of interests form and only a handful outstanding at this point. The team have been supported by the Governance department in getting this completed.

Recommendations 6 and 7, which are both medium assessed risks, pertain to savings plans. These have been set out regularly in terms of the reports presented to the executive management team. The financial results report that went to Mayor & Cabinet on the 9th June provides great detail of the reasons why particular savings goals were not delivered, which vary from COVID-19 delays to delays of implantation of plans

The action plan appendix relating to Oracle and General IT controls details were provided by the Director of IT and Digital. One of the in progress observations outlined in the report was audit logging not being proactively monitored within Oracle. Despite best efforts from an organisational perspective, it is still in progress as the ongoing dialogue with Oracle will remain until such time.

Appendix C outlined the progress with the action plan on the Pension Fund accounts. There has been some delay in implementing this and it is expected that some third party support will be needed to enable completion. After the accounts have been settled and finalised, work will begin on its implementation.

It was asked if independent members should be receiving updates annually on the registers of interest.

Action: find out from auditors if Independent Member Interests are required for audit process

The report was noted.

6. Counter Fraud Annual Report

Due to the COVID-19 pandemic there was significant impact on the work of A-FACT.

Between April and June 2020 A-FACT was seconded to the COVID Action Team providing shielding calls and IT support. Only a skeleton service was left to provide a counter fraud response. In the remainder of the year the team's focus has been on the various COVID-19 support schemes.

Nonetheless, work that has continued for A-FACT include, employee checks, pre and post payment verification, and housing (although there has been less of it, due to the pandemic- ban on evictions and pause on face to face visits).

The Local Government Transparency Code requires all local authorities to publish data on their anti-fraud arrangements on at least an annual basis. The data for 2020/21 is outlined in the report, along with the two previous years for comparison. It should be noted that in the case of investigations into Business Rate grants only closed successful cases have been included due to the volume of checks conducted.

The A-FACT team have been accredited under the new cabinet office, bringing together individual and organisational counter-fraud learning from across the public sector. All investigators are now members, with the manager accreditation to follow in 2021/22.

The report was noted.

7. Internal Audit

The Interim Head of Internal Audit presented this report. She stated that the report provided a summary of the internal audit work that has been completed during the year and other sources of assurance which has enabled her to have an opinion on

the Council's arrangement for governance risk management and internal control. The following was discussed:

Based on the evidence gathered, satisfactory assurance can be placed on the accuracy and effectiveness of the Council's corporate system of internal control. The report set out the basis for that opinion with the caveat that the audit plan was reduced as a result of the planning around the pandemic, which caused the internal audit team to be unavailable for audit work for 4 months in the year. With the Audit Panel's agreement, the scope of work was reduced and the plan cut out the school audits but still identified 39 assignments for 2020/21- this was previously 38 and 40 different areas were reviewed. 32 of these were provided an assurance opinion and analysis for that opinion was outlined in the report. It demonstrated that Substantial or Satisfactory assurance for 75% of the core internal audits completed was given and 25% had limited assurance opinions.

There were 214 areas for improvement for which recommendations were raised. 43 of those were assessed as high risk. The majority of issues identified (62%) were assessed as Medium risk (132 recommendations raised), with 20% (43 recommendations) assessed as High risk. Efforts were concentrated on the more risky areas of the Council.

To derive maximum benefit from internal audit work, agreed actions are to be implemented within reasonable timescales. Internal Audit confirm managers' progress with the implementation of improvements by two approaches; Follow-up reviews for all corporate service areas where a negative assurance opinion has been provided in the last audit; tracking of managers' self-assessments of progress with implementing High and Medium-rate actions via an internal SharePoint site.

Other sources of assurance in the Review of Human Resources (HR) Policies: reliance was placed on work undertaken as part of the HR Services' strategic review of HR and Organisational Development, which was reported to the Head of Paid Service; Post-implementation review of Oracle HR and Payroll – Security and Audit Trails; Review of Remote Working Security Arrangements; and Grant certifications.

Action: Panel to monitor the implementation of recommendations due to the deterioration of some of the audit assurances.

The report was noted.

8. Annual Assurance

The Interim Head of Internal Audit presented this report. The report outlined work that has been carried out for the year ended 31 March 2021, which supports the Head of Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control for 2020/21.

Internal Audit is satisfied that sufficient internal audit work has been undertaken, albeit on a reduced audit plan. The Head of Internal Audit's opinion is that 'Satisfactory' assurance can be placed on the adequacy and effectiveness of the Council's corporate system of internal control. The detail of the audit plan was presented in Annex 1 in a chart in the report.

The internal charter is to formally establish the purpose and responsibility of the internal audit which was presented in Annex 2.

In terms of the progress with internal work since February 2021, 22 assignments have been completed with the assurance levels and number of recommendations raised.

Some audits from the 2021/22 plan have already been delivered.

The report was noted.

9. Strategic Risk Register

The Head of Corporate Resources presented this report. He gave a brief summary of the report. The following was discussed:

Cultural resistance to change negatively impacting employee relations has been added to the Strategic Risk Register as a new red risk since the last review by the Audit Panel. The Brexit risk has been deleted this quarter as the impacts are no longer specific to that event.

There is one score change in the Strategic Risk Register. Impact of Climate Change has increased from an amber rating (12) to a red rating (15).

The key risks anticipated for the next 12 months are recorded in the Strategic Register and key risks were demonstrated in the report.

Potential policy changes may introduce risks so this has been added to the Horizon Scan.

Action: Cultural Resistance Impacts Employee Relations and Info-Governance failure were submitted by the Chair for interrogation. There was no consensus reached by the Panel. After discussion it was agreed that Chair would discuss outside of the meeting with the Head of Corporate resources about which of the items on the risk register will be reviewed and interrogated by the Panel next.

The Panel noted the Risk Strategy attached to the report.

10. Report on the Redmond Review

The Head of Corporate Resources presented this report.

The Redmond Review was commissioned to address concerns over the regulations and audit environment for local public bodies. This followed concerns with the framework arrangements following the abolition of the Audit Commission and quality of assurance from the work of the audit firms. The review concluded with 22 recommendations which were outline in the report.

These first two recommendations (a new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit with the following key responsibilities; e current roles and responsibilities relating to local audit discharged) are under review by MHCLG and lead to the most significant impacts if agreed. The challenge is the scale of the oversight body required to be effective, without the need to recreate the equivalent of the former Audit Commission. In principle, a single body providing clarity on the regulations and responsibilities to be complied with and the means to manage the market in procuring quality audits is to be welcomed.

The new element to recommendation 4 is the requirement to prepare an annual report to be submitted to Full Council. This would help all areas of the Council and engage with the financial obligations on the Council as they impact its strategic objectives and plans. This would be a positive development. Recommendations 6 and 10, are linked to provide the additional time at a cost to ensure the quality of financial and value for money audit work is of sufficient depth and effectively covers the Council's key risks. In addition to the contracted audit costs there will also likely be additional demands on officer time and resources to respond to the more in depth assurance work.

Recommendation 17 is related to making the accounts more accessible to users, more easily comparable to other authorities' performance, and aligned to the activities of the Council. A standardised report to enable better accessibility to Council's financial data would be valuable. Such reporting will need to allow for the local context and priorities to be positioned and explained to be relevant and meaningful.

The report was noted.

11. Report on Internal Control Risk

This item was restricted as a Part 2 report under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting.