



Audit Panel

Report On The Work Of The Audit Panel 2021-22

Date: 15 March 2022

Key decision: No

Class: Part 1

Ward(s) affected: No individual wards

Contributors: Head of Assurance

Outline and recommendations

(This report is presented as it will appear to PASC on 17 March 2022. References to 'this' Committee refer to PASC)

This Committee's Terms of Reference direct that it should scrutinise the effectiveness of the Audit Panel. This report outlines the Audit Panel's work in the municipal year 2021/22 to support this Committee in discharging that responsibility.

We recommend PASC **note** this report.

Timeline of engagement and decision-making

- *2 March 2022: Approved informally by Audit Panel Chair*
- *15 March 2022: Presented for comment at Audit Panel*

1. Summary

- 1.1. Section 6.7 of the Council's Constitution details specific terms of reference for each Committee. For the Public Sector Accounts Select Committee, the terms of reference direct, among other instructions, that the Committee should "*scrutinise the effectiveness of the audit panel*".
- 1.2. At Section 9.3, the Constitution directs that the Audit Panel should comprise 6 non executive Councillors (one serving as Chair) and up to 4 independent co-opted members. The Constitution then details eleven areas where the Panel should "*receive, review and where appropriate advise [...] and make recommendations*".
 - *Review and approve the Council's Internal Audit strategy, plans and resources.*
 - *Internal audit quarterly progress reports.*
 - *Annual Report of the Council's Head of Internal Audit.*

- *Reports of Internal Audit on where management has failed to undertake necessary actions within the planned audit time frame.*
 - *The external auditor's Annual Plan and relevant reports.*
 - *External inspection reports and specific reports as agreed with the external auditor.*
 - *Monitoring effectiveness of risk management, control environment and anti-fraud and anti-corruption arrangements.*
 - *Overview of the Council's Constitution on audit procedure, contract procedure and financial regulations.*
 - *Assurance arrangements, including the Statement of Internal Control.*
 - *The Annual Statement of Accounts, including whether appropriate accounting policies have been followed and any concerns arising from the Financial Statements*
 - *The External Auditor's opinion and reports to members, and monitoring management action in response to issues raised by external audit.*
- 1.3. This report sets out the Panel's work during the municipal year 2021/22, assuring this Committee that the Panel has appropriately and fully discharged its responsibilities.

2. Recommendations

- 2.1. We recommend PASC **note** this report.
- 2.2. Noting this report will aid PASC in discharging its responsibility to scrutinise the Audit Panel's effectiveness.

3. Policy Context

- 3.1. The report supports the Council's Governance goals, recognising that strong corporate governance arrangements are crucially important to managing a modern and successful local authority.

4. Background

- 4.1. This report sets out the respective responsibilities of PASC and the Audit Panel in Section 1.
- 4.2. The Audit Panel has met four times during the 2021/22 municipal year, and by the time PASC discusses this report, it will have met for the fifth time. Meetings and attendance details as summarised below:
- 23 June 2021: 6/6 Members present (including one substitute) plus 2/3 Co-Optees.
 - 16 September 2021: 6/6 Members present plus 3/3 Co-Optees.
 - 10 November 2021: 5/6 Members present plus 2/3 Co-Optees.
 - 7 December 2021: 3/6 Members present plus 3/3 Co-Optees.
 - 15 March 2022: Verbal update from Chair to follow.

5. External Audit & Financial Statements

- 5.1. There exists a regular cycle for external audit and the financial statements, as set out in the Accounts and Audit Regulations 2015. This cycle – in a typical year – would include preparatory work over the winter, an audit plan in the spring with the accounts audit work, audit findings and opinion concluded by the end of July. External audit would then complete their work on Whole of Government accounts and housing benefit certification in the autumn, issuing an annual audit letter by the end of the year.

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- 5.2. However, as with much else, the initial waves of the Covid-19 pandemic significantly delayed this timetable. The Council's financial statements audit concluded in November 2020, in line with the Government's revised reporting timetable. Inevitably, these delays in completing the 2019/20 audit had a knock-on effect into subsequent years. The Government has recognised these continuing challenges by moving the deadline from July to September for at least the next two years.
- 5.3. During 2021/22, the Council's external auditors, Grant Thornton, attended and presented at each meeting. In June, Grant Thornton presented their annual audit plan, covering the Council, Group Accounts, and Pension Fund. This plan described Grant Thornton's perspective on the key risks to the financial statements' material accuracy.
- 5.4. In September, Grant Thornton presented a progress report and an overview of the sector's developments. In November, with the primary financial statements audit work nearly but not wholly complete, the Panel received Grant Thornton's Audit Findings report. This report acknowledged the audit was not completed by the 30 September deadline but set out findings so far and work remaining. The report also anticipated unmodified ('clean') audit opinions for the Council and the Pension Fund. The Panel noted and welcomed this conclusion while recognising it as provisional.
- 5.5. In December, the Panel received a progress report. In March, the Panel expect to receive a final version of the Audit Findings report, following the conclusion of the audit and issue of clean audit opinions on 16 December 2021.
- 5.6. The Audit Findings report summarised Grant Thornton's conclusions in its headlines:
"The quality of the draft financial statements presented to audit were an improvement on the prior year and the statements had been subject to more rigorous management reviews. The Council are on an improvement journey, but our reviews and testing are still identifying [a] high level of audit adjustments to the financial statements, albeit the majority of these are presentational in nature".
- 5.7. In the December progress report, the Panel received an update from officers against the matters raised by Grant Thornton. The Panel noted officers' acceptance of the findings and commitments to remedial action for their resolution. The Panel will receive further updates from officers in March and through 2022/23 as they fulfil the actions.

6. Internal Audit

- 6.1. In June, the Panel received the Annual Opinion from the then Head of Internal Audit, who had been seconded from PWC from August 2020 to January 2022. While noting that the pandemic had forced a reduced audit plan, the Opinion nonetheless offered the Panel 'Satisfactory' assurance on the Council's governance, risk management and internal control for 2020/21.
- 6.2. In June, December and March, the Panel also received updates on progress against the 2021/22 Internal Audit plan approved in February 2021. These updates included information on the Council's continued improvements in responding to internal audit recommendations, spurred on by the Panel's clear leadership and expectation of prompt remedial action.
- 6.3. As well as receiving update reports, the Panel approved a revised Internal Audit Charter in June. This Charter, an essential requirement of Public Sector Internal Audit Standards, sets out the local approach to internal audit. The internal audit service is currently undergoing a peer External Quality Review of its conformance to the Standards. The Panel will receive the outcome report of this review early in 2022/23.
- 6.4. In January, the Council appointed a new Head of Assurance. He has picked up the Head of Internal Audit role from the PWC secondee and taken on responsibility for the Council's Risk Management, Insurance and Counter Fraud Services. In March, he will

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first present to the Panel the Internal Audit Service's proposed 2022/23 plan.

7. Anti-Fraud and Corruption

- 7.1. The Anti-Fraud and Corruption Team (A-FACT) continued through 2021/22, supporting the Council's disbursement of government business grants. This was alongside its regular work, summarised in an Annual Report presented to Audit Panel in June.
- 7.2. This report highlighted a year-on-year increase in employee-related frauds, albeit within the bounds of variation over the past several years. A-FACT noted no apparent link to the pandemic in changes to the level of identified fraud. The overall activity of the team remained relatively stable, with 113 active cases in the year (compared with 140 in 2019/20 and 135 in 2018/19), not including pre-employment checks.
- 7.3. The report also highlighted the A-FACT team becoming the first local authority to become a full member of the Government's Counter Fraud Profession.

8. Risk Management

- 8.1. During 2021/22, the Panel continued reviewing the Corporate Risk Register at each meeting. The Panel received a risk update at each meeting except November (which was given over to reporting related to the financial statements).
- 8.2. As well as reviewing the corporate risk register in full, the Panel also undertakes a specific review into particular risks. These reviews invite individual risk owners to the Panel to speak about the risks under their control and provide additional detail on their management. During 2021/22, the Panel received further information on financial and cybersecurity risks.
- 8.3. In June, the Panel also reviewed the Council's Risk Management Strategy 2017-20. The Panel accepted an officer recommendation to review the Strategy and extend its lifespan for two years to 2022.

9. Annual Governance Statement

- 9.1. The Annual Governance Statements forms part of the Financial Statements that the Panel reviewed in November.
- 9.2. The Annual Governance Statement highlighted several governance priorities for 2021/22 and onwards:
 - Delivery of the Corporate Strategy,
 - Successful implementation of further cuts to reflect continuing budget reductions,
 - Addressing the Chief Executive's priorities for improvement, including financial management, evidence-based decision making, organisational culture, resident experience, governance and risk, project and people management and communications,
 - Aligning schemes of delegation and financial procedures to the new Directorate structures,
 - Update payroll and HR procedures to capture operational changes from the move to Oracle Cloud,
 - Address internal and external audit findings,
 - Continue implementing the areas for improvement identified in the August 2019 review of Children's Services,
 - Working with local and regional partners on Covid-19 response.

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9.3. The Audit Panel will monitor and review progress on these priorities as part of its work.

10. Other Business, Including Priorities Carried Forward from 2020/21

10.1. The equivalent report to PASC in March 2021 highlighted four areas where the Panel had been unable to complete its 2020/21 work and noted these were to carry forward into 2021/22. These areas were:

- **Redmond Review:** The Panel received a report in June 2021 summarising the Government's responses to the Redmond Review's recommendations.
- **Additional Meeting to Review Financial Statements:** The Panel included a fifth meeting in 2021/22 for this specific purpose.
- **Review Panel Status and terms of reference:** This work has continued through 2021/22 and will seek to come forward with proposals following this Spring's elections.
- **Recruiting a fourth independent Member:** Noting the continued value and enormously appreciated contributions of independent Members, this remains an ambition of the Panel that will be taken forward alongside any terms of reference revision post-elections.

11. Financial implications

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

12. Legal implications

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

13. Equalities implications

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

14. Climate change and environmental implications

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

15. Crime and disorder implications

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

16. Health and wellbeing implications

16.1. There are no health or wellbeing implications arising directly from this report.

17. Background papers

17.1. The background papers to this report are the Audit Panel meeting records published on the Council's website. [Linked here.](#)

18. Report author and contact

18.1. For any queries on this report, please contact Rich Clarke, Head of Assurance, on 020 8314 8730.

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