

# Full Council

## 18 July 2017



**Report of:** The Audit Committee

**Title:** Audit Committee – Annual Report 2016/17

**Ward:** Citywide

**Member presenting report:** Councillor Olly Mead, Chair of the Audit Committee 2016/17

### **Recommendation**

That Council accepts the report of the Audit Committee at Appendix A, and notes the assurances provided in the report.

### **Summary**

The report sets out the work and performance of the Audit Committee during 2016/17, and the extent to which the Committee's terms of reference have been met.

### **The significant issues in the report are:**

The work of the Committee as detailed in section four of Appendix A;

The evaluation of the Committee's performance at paragraph 4.7 in Appendix A.

The priorities for 2017/18 as detailed in section five of Appendix A



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## **Policy**

1. The Audit Committee's Terms of Reference are determined by Full Council and are reflected in the Risk Management Strategy and Policy Statement. The City Council has a duty to ensure adequate and effective risk management, internal control and governance arrangements and the economy, efficiency and effectiveness of its activities. The Audit Committee has a key role in assessing the extent to which this responsibility is being met and advising the Council on the adequacy and effectiveness of these arrangements.

## **Consultation**

### **2. Internal**

Internal Audit

Audit Committee Members

S151 Officer

### **3. External**

Not applicable

## **Context**

4. The Audit Committee was established by the City Council at its meeting on 16<sup>th</sup> May 2006. Whilst there is no statutory obligation to have such a Committee, they are widely recognised as a core component of effective governance.

## **Proposal**

5. The report of the Audit Committee, and the assurance and comments therein, is noted.

## **Other Options Considered**

Not Applicable

## **Risk Assessment**

6. The purpose, strategy and work programme for the Audit Committee mitigates against any failure by the Council to obtain independent assurance in relation to the governance processes underpinning :
  - an effective risk management framework and internal control environment
  - the effectiveness of financial and non-financial performance (to the extent it affects exposure to risk and poor internal control)
  - the Annual Governance Statement, and
  - the review and approval of the annual statement of accounts.

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## Public Sector Equality Duties

- 8a) Before making a decision, section 149 Equality Act 2010 requires that each decision-maker considers the need to promote equality for persons with the following “protected characteristics”: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. Each decision-maker must, therefore, have due regard to the need to:
- i) Eliminate discrimination, harassment, victimisation and any other conduct prohibited under the Equality Act 2010.
  - ii) Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to --
    - remove or minimise disadvantage suffered by persons who share a relevant protected characteristic;
    - take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of people who do not share it (in relation to disabled people, this includes, in particular, steps to take account of disabled persons' disabilities);
    - encourage persons who share a protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.
  - iii) Foster good relations between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to –
    - tackle prejudice; and
    - promote understanding.
- 8b) None necessary for this report

## Legal and Resource Implications

### Legal

None sought

### Financial

None affected by this report

### Land

Not applicable

### Personnel

Not applicable

## Appendices:

**Appendix A** – Audit Committee Annual Report 2016/17

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## **LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985**

### **Background Papers:**

CIPFA - Toolkit for Local Authority Audit Committees 2015.

CIPFA Guidance on Audit Committee Effectiveness 2013



# **BRISTOL CITY COUNCIL**

## **AUDIT COMMITTEE**

### **ANNUAL REPORT 2016-17**

## 1. Introduction:

- 1.1 This is the annual report of the Audit Committee and covers the financial year 2016/17. The format of the report has been developed to enable the reader to form a view about the effectiveness of the Committee's activities during the year and its oversight of the Assurance and Risk Management Frameworks within which Bristol City Council operates.

## 2. Role of the Committee:

- 2.1 The Committee's approved Terms of Reference, which are detailed on the Bristol City Council website [Audit Committee Terms of Reference.pdf](#), can be summarised as providing independent assurance to the Council in relation to the:

- Effectiveness of the Council's governance arrangements, risk management framework and internal control environment;
- Overseeing of the work of Internal and External Audit;
- Effectiveness of the Council's financial and non-financial performance;
- Reviewing of the Annual Statement of Accounts and the Annual Governance Statement.

A commentary on the Committee's work during 2016/17 is set out in the following paragraphs.

- 2.2 The Audit Committee is, therefore, the primary means by which the Council ensures that adequate assurance and internal control systems are in place. It ensures that these are regularly reviewed and reflect regularity and propriety. It also oversees the Council's risk management processes, corporate governance arrangements and treasury management. The Audit Committee's responsibilities are additional and supportive to those of the Section 151 Officer.
- 2.3 A total of forty five reports were considered during the year, the details of which are provided in Appendix 1.
- 2.4 In addition to the Committee members, the Section 151 Officer, Head of Internal Audit, Monitoring Officer, representatives from External Audit (BDO LLP) and other officers, as appropriate, attended Committee meetings.

## 3. Adoption of Recommended Practice:

- 3.1 The Committee considered its effectiveness in 2016/17 against the Chartered Institute of Public Finance and Accountancy (CIPFA) Guidance on Audit Committees' 'Good Practice' checklist to ensure it operated in line with generally accepted practices. The results from the assessment will be used to inform the Committee's training strategy going forward as well as its work programme. A copy of the checklist is attached to this report for information at Appendix 2.
- 3.2 The Audit Committee also reviews the Council's Annual Governance Statement, which is consistent with the principles of the *CIPFA/SOLACE Framework: Delivering Good Governance in Local Government*.

#### 4. The Work of the Committee in 2016/17:

##### Has the Committee Fulfilled its Terms of Reference?

- 4.1 The specific objectives of the Committee relate to overseeing the following arrangements:

*Table 1 - Audit Committee Key Oversight:*

Oversight
Internal Control Environment
Corporate Risk Management
Regulatory Framework
Internal Audit
External Audit
Financial Reporting
Treasury Management
Members Conduct
Anti-Fraud Arrangements
Granting Dispensations
Member Complaints

- 4.2 The Committee received reports on all of these requirements in terms of relevant agenda items. Audit activity is reviewed at every meeting with plans and reports received from Internal and External Audit.
- 4.3 Specific aspects of governance which have been reviewed include risk management arrangements, whistle-blowing arrangements, and an update on the Council's financial governance arrangements. The Annual Governance Statement and the Accounts for 2015/16 were considered prior to their final production in addition to considering the related External Auditor's report.
- 4.4 The Committee received an Annual Report from the Head of Internal Audit, in line with best practice in the CIPFA Public Sector Internal Audit Standards (PSIAS). This provided an opinion on the control environment and an update on the Council's current fraud risk, together with details of the assurance, fraud/irregularity and Value for Money work which has been undertaken on the Council's behalf and the outcomes there of.
- 4.5 The Committee has also expressed an interest in the extent to which Internal Audit recommendations have been implemented. The Committee has continued to emphasise the importance of implementing Internal Audit's recommendations and has supported Internal Audit in its work to ensure control weaknesses are effectively dealt with.
- 4.6 In order for the Committee to be effective, it is necessary that the members of the Committee be apolitical and objective, have a clear understanding of risk management, internal control and governance issues and how the arrangements in place across the City Council operate. A number of Committee members were newly appointed and, during 2016/17, training was arranged to support the induction process and for existing members to reinforce the need for the Committee to be able to deliver a robust and appropriate challenge environment within the Council.

Whilst improvements have been noted, there remain a number of areas where the Committee needs to be vigilant to ensure compliance with the following responsibilities under the Committee's Terms of Reference:

- Maintaining an apolitical/independent approach to meeting agendas and items thereon.
- Providing robust challenge to determine the effectiveness of the Council's governance framework.
- Ensuring focused meetings to maximise the Committee impact

The Committee has recognised its need for further and possibly more focused / targeted training sessions and these will be jointly planned in the coming year. Details of 2016/17 training courses are outlined at paragraph 4.14 below.

### **How has the Committee Added Value?**

4.7 The Committee has been presented with a wide range of issues during the year, providing scrutiny of the governance within the Council. Outlined below are examples of where the Committee has sought to improve the governance of the Council:

- Following receipt of updates from Internal Audit on the level of implementation of their recommendations, the Committee as well as expressing dissatisfaction has, where appropriate, called officers to account.
- The Committee has requested improved tracking of whistleblowing incidences in order to ensure that matters are appropriately dealt with, lessons are learned and the whistle-blower is not disadvantaged in any way.

### **Membership of the Committee and Attendance Record**

4.8 September 2016, the Committee comprised of nine members and was chaired by Councillor Olly Mead. The other members were Councillors Clive Stevens, Vice Chair, Nicola Beech, Nicola Bowden-Jones, Helen Godwin, Liz Radford, and Gary Hopkins, plus two independent members Brenda McLennan and Ken Guy.

4.9 In September 2016 the Committee lost one of its independent members, Brenda McLennan, who was not replaced for the residual part of the year. Additionally, the other independent member of the Committee left at the end of the 2016/17 municipal year.

4.10 The Committee met formally on six occasions during 2016/17, all of which were quorate.

*Table 2 Audit Committee Attendance 2016/17:*

Member	No. of Meetings Held	No. of Meetings Attended	% of Meetings Attended
Olly Mead - Chair	6	6	100%
Clive Stevens – Vice Chair	6	4	67%
Nicola Beech	6	6	100%
Nicola Bowden-Jones	6	5	83%
Helen Godwin	6	2	33%
Liz Radford	6	6	100%
Gary Hopkins	6	5	83%
Ken Guy	6	3	50%
Brenda McLennan	3	2	67%



- 4.11 One declaration of a non-pecuniary interest was made at the September 2016 meeting. The Committee member did not take part in the discussions appertaining to that interest.

### **Training and Development Activity to Support Committee Members**

- 4.12 A key requirement of an effective Audit Committee is a well-informed membership who has substantial experience of the key areas to be considered by the Committee. The training plan for 2016/17 has been aimed at assisting members to improve their knowledge and understanding of some of the complex issues; for example preparation of the Council's Annual Accounts and Annual Governance Statement and the important duty that the Committee has to perform in terms of scrutinising those accounts and passing them for external audit.
- 4.13 The Committee attended training in the following areas during the municipal year:
- The Role of the Audit Committee
  - Risk Management and Governance – the Committee's responsibilities
  - Scrutinising the Annual Statement of Accounts
  - Treasury Management
  - Governance and the Annual Governance Statement
- 4.14 Additionally, the Committee received the following CIPFA Better Governance Forum publications to aid its understanding of its role:
- Good Governance in Local Government – 2016 Framework
  - The Audit Committee and Internal Audit Quality
- 4.15 The Committees' completion of the CIPFA Self-assessment, which is provided at Appendix 2, will be utilised to inform the Committee's training programme going forward to the next municipal year.
- 4.16 The Council has an established budget for member development and training in 2017/18 and this can be accessed to support external trainers or facilitators, or to fund members' attendance on external training programmes where this is considered beneficial.

## **5. Priorities for 2017/18**

- 5.1 Looking forward, the Committee will be enhancing its effectiveness by developing in the following areas, which have been informed, in part, by its effectiveness self-assessment:
- Reviewing its Terms of Reference in accordance with CIPFA Guidance
  - Monitoring of the Annual Governance Statement Action Plan
  - Commissioning Governance
  - Partnership Governance
  - Business Continuity Planning
  - Trading Companies (establishing Committee's role if appropriate)
  - Information Security / Strategy
  - Implementation of recommendations from both Internal and External Audit
  - Transparency and accessibility of reporting within the Council
  - The Control, Risk and Governance framework

## **6. CONCLUSION**

- 6.1 The Committee's primary contribution to the Council's objectives is to ensure that Governance, Control, Risk Management and Audit systems which underpin the work of the Council are sound, reliable, robust and secure.
- 6.2 This review gives an overview of the range of work undertaken by the Committee, which has enabled it to conclude that the Council's system of checks and balances, whilst not having been as robust as required, have been subject to some improvement during the year, with further improvements planned going forward.
- 6.3 The Committee has noted that a Governance improvement action plan has been developed and will be monitored at Member level as appropriate.
- 6.4 A review of Committee effectiveness against its terms of reference and opportunities to enhance the effectiveness of the Committee have been identified for implementation in 2017/18. The Committee recognises the significant challenges facing the Council over the coming years, and aims to promote and support good governance throughout the Council.
- 6.5 I would like to thank my Vice Chair, fellow Committee members and Officers for their support in enabling the Committee to achieve its objectives in 2016/17. I would also like to take this opportunity to thank our two independent members for their support of the Committee over the last 7 years and to wish them both well in the future.

## **7. Appendix:**

- Appendix 1 – Reports considered by the Audit Committee in 2016/17
- Appendix 2 - CIPFA 'Good Practice' checklist for Audit Committees.

## APPENDIX 1

### Reports Considered by the Audit Committee 2016/17

#### June 2016

Committee Work Programme 2016/17  
Committee Action Sheet  
Internal Audit Annual Plan for 2016/17  
External Audit Update Report  
Finance Improvement Project –Update  
Appointment of Alderman/Woman Nominations

#### July 2016

Committee Work Programme 2016/17  
Committee Action Sheet  
Annual Governance Statement – Action Plan Update  
Corporate Risk Register 2015/16 Update  
Internal Audit Annual Report for 2015/16  
External Audit Update Report

#### September 2016

Committee Work Programme 2016/17  
Committee Action Sheet  
Statement of Accounts for 2015/16  
Treasury Management Annual Report for 2015/16  
Treasury Management Quarter (1) Report for 2016/17  
Bank Reconciliation – verbal response to Internal Audit Recommendations  
External Audit ISA260 Report  
Final Annual governance Statement for 2015/16, plus Action Plan Update  
Revised criteria for Honorary Alderman/Woman nominations  
Local Government Ombudsman's Annual Letter 2015/16

#### November 2016

Committee Work Programme 2016/17  
Committee Action Sheet  
External Audit – Annual Audit Letter for 2015/16  
Treasury Management – Mid-Year Report  
Process for the Appointment of the External Auditor  
Internal Audit Half-Year Report  
Nominations for Honorary Alderman/Woman  
People Directorate Risk Register  
Neighbourhood's Directorate Risk Register

#### January 2017

Committee Work Programme 2016/17  
Committee Action Sheet

External Audit 2015/16 Grants Report  
Corporate Risk Register – Update  
Applications for Dispensation  
Place Directorate Risk Register  
Complaints received against Members Report

March 2017

Update on the Council's Control Framework – based on the work of Internal Audit  
Internal Audit Draft 2017/18 Annual Plan  
Money Laundering Policy Update  
External Audit 2016/17 Audit Plan  
External Audit Annual Fee Letter  
Honorary Alderman Nomination  
Whistleblowing Arrangements Governance

Evaluating the Effectiveness of the Audit CommitteeAssessment key

- 5 Clear evidence is available from a number of sources that the Committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable.
- 4 Clear evidence from some sources that the Committee is actively and effectively supporting improvement across some aspects of this area.
- 3 The Committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.
- 2 There is some evidence that the Committee has supported improvements, but the impact of this support is limited.
- 1 No evidence can be found that the Committee has supported improvements in this area.

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	2016/17 Self Evaluation	2016/17 Overall assessment: 5:1 (see key above)
Promoting the principles of good governance and their application to decision making.	Providing robust review of the AGS and the assurances underpinning it.	The Committee received the updated Action plan for the 2015/16 AGS in July 2016 and the final AGS and Action Plan update in September 2016	3
	Working with key members/governors to improve their understanding of the AGS and their contribution to it.	The Committee received training on; Risk and Governance, provided by IA in July 2016, the role of the Audit Committee in January 2017 and attending Governance training in May 2017.	3
	Supporting reviews/audits of governance arrangements	The Committee receives details of the outcomes from IA reviews and, where appropriate, has raised challenge and/or requested a more in-depth report back to it. The Committee commented on the IA Governance Dashboard at its March 2016 meeting.	3
	Participating in self assessments of governance arrangements.	Completed by the Committee as part of its consideration of its annual report.	2
Contributing to the development of an effective control environment's	Encouraging ownership of the internal control framework by appropriate managers	The Committee has received reports from key officers within the Council, as in Finance, Internal Audit and Legal, as well as regular reports from the appointed external auditor.	3
	Raising significant concerns over controls with appropriate senior managers.	As above	3
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	Reviewing risk management arrangements and their effectiveness, e.g. risk management benchmarking.	The Committee provides scrutiny and challenge for the Corporate Risk Register (CRR) which it formerly reviews every 6 months. The Committee also maintain a watching brief on Directorate Risk Registers (DRR), which it receives as information items once they have been cleared by Directorate Scrutiny Commissions.	3
	Monitoring improvements	The Committee has raised concerns with regard to the risks and mitigations contained within the Corporate Risk Register, however improvement to the CRR has yet to be achieved.	3
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	Seeking to streamline assurance gathering and reporting.	The Committee has maintained a watching brief on the resources available to Internal Audit, as well as providing feedback on the Internal Audit work plan and the feasibility of achievement.	3
	Reviewing the effectiveness of assurance providers, e.g. internal audit, risk management, external audit.	The Committee receives regular reports from both the Internal and External auditors. Both provide the Committee with their annual work programmes for scrutiny and challenge.	3
Supporting the quality of the Internal Audit activity, particularly by organising its organisational independence.	Assessing the effectiveness of Internal Audit arrangements and supporting improvements	The Committee has received update reports on the Internal Audit provision and has utilised these to assess the effectiveness of the Internal Audit service, including the level of resource and audit coverage.	3
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	Reviewing arrangements against the standards set out in CIPFA's Management the Risk of Fraud (Red book 2).	The Committee receives an annual Fraud update, as part of the Internal Audit Annual report, which provides the outcomes from an annual review of the Council's fraud arrangements against relevant fraud checklists and key indicators.	3
Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.	Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English.	The Committee actively supports the need to ensure that reports are not made inaccessible due to the language/terminology used, challenging reports where the language and terminology impinges on the transparency of the published information.	3