

BRISTOL CITY COUNCIL
Audit Committee
16th April 2010

Report of: Strategic Director (Resources)

Report Title: Audit Committee Draft Annual Report to Council 2009/10

Ward: Citywide

Officer presenting report: Richard Powell, Chief Internal Auditor

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RECOMMENDATION

The Committee comment on the form and content of the draft report. The report provides for the Committee's assurances to Council at paragraphs:

- 9.1 regarding risk management
- 9.7 regarding partnership governance
- 9.12 regarding internal control and the Annual Governance Statement (AGS)
- 9.17 regarding internal audit
- 9.22 regarding external audit and governance
- 9.29 regarding anti-fraud arrangements

SUMMARY

This report suggests a format for the Audit Committee's Annual Report to Council. This describes the Committee's role, the work programme this municipal year and furnishes the Committee with a facility to provide key assurances to Council. It also details the planned development of the Committee to strengthen the level of assurance provided in future.

The significant issues in the report are:

- Appendix A - a draft report of the Committee to Council.

Policy

This report is submitted in accordance with the Audit Committee's Terms of Reference.

Consultation:

Internal: Audit Committee Chair and Deputy Chair, s151 Officer and Chief Internal Auditor

External: None necessary

Other Options Considered

None necessary

Risk Assessment

The assurances provided to Council by the Audit Committee are an important element of the Council's governance arrangements.

Equalities Impact Assessment

None necessary for this report

Environmental Impact Assessment

None necessary for this report

Legal and Resource Implications

Legal - none sought

Resource - None arising from this report

Appendices

Appendix A Draft Report of the Audit Committee to Council

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers

- IPF - A Toolkit for Local Authority Audit Committees.
- Audit Committee Reports and Papers from June 2008 to date.

BRISTOL CITY COUNCIL

FULL COUNCIL

29th June 2010

Report of: The Audit Committee

Title: Audit Committee - Annual Report 2009/10

Ward: Citywide

Officer Presenting Report: Councillor Geoff Gollop, Chair of the Audit Committee

Contact Telephone Number: 0117 37 73526

RECOMMENDATION

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

Summary

This report sets out the work and performance of the Committee during 2009/10, and the extent to which the Committee's terms of reference have been met.

The significant issues in the report are:

- Para 6 the effectiveness and impact of the Audit Committee
- Para 7 issues around the independence of the Committee
- Para 9.1 the Committee's assurance regarding the management of key risks facing the Council
- Para 9.6 the Committee's assurance regarding partnership governance
- Para 9.11 the Committee's assurance regarding the internal control, risk management and corporate governance arrangements which were considered in preparation of the Council's published Annual Governance Statement
- Para 9.16 the Committee's assurance on the effectiveness of the system of internal audit
- Para 9.21 summary of external assurances on the internal control, risk management and governance arrangements
- Para 9.27 summary of anti-fraud assurances
- Para 10 *the way forward in developing the Audit Committee's role and effectiveness (will be need amending when report complete)*

Policy

1. The Audit Committee's Terms of Reference are determined by Full Council and are reflected in the Risk Management Policy Statement.

Consultation

2. Internal

Internal Audit
Audit Committee Members
Strategic Director (Resources)
S151 Officer

3. External

Not Applicable

Context

- 4.1 The Audit Committee was established by the City Council at its meeting on 16th May 2006. This report, therefore, reflects the Committee's fourth year of operation. Whilst there is no statutory obligation to have such a Committee, they are widely recognised as a core component of effective governance and are essential to score well under the CAA Use of Resources Key Lines of Enquiry (KLOE) in respect of internal control.
- 4.2 Following the introduction of an Annual Governance Statement (AGS) in 2007/08, the AGS has been since been further supported by the creation of a local Code of Corporate Governance which was approved by Full Council in January 2009. Given their role in the Council's governance arrangements, the Audit Committee together with the Standards Committee have reviewed the local Code to ensure its continued relevance and fitness for purpose.

5. Terms of Reference

- 5.1 The City Council has a duty to ensure adequate and effective risk management, 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.
- 5.2 The Committee's Terms of Reference were, for 2009/10, to provide independent assurance to the Council in relation to:
 - the effectiveness of the Council's governance arrangements, risk management framework and internal control environment including overseeing:
 - risk management strategies
 - anti-fraud arrangements
 - whistleblowing strategies
 - Internal and External Audit Activities

- the effectiveness of the Council's financial and non-financial performance to the extent it affects exposure to risk and poor internal control
- the Annual Governance Statement
- the review and approval of the annual statement of accounts, confirming the appropriate accounting policies have been followed, including the external auditor's report to "those charged with governance" on issues arising from the audit of the accounts

Full Council has delegated the following functions to the Audit Committee:

- Duty to approve the authority's statement of accounts, income and expenditure and balance sheet, or record of payments and receipts (as the case may be) (The Accounts and Audit Regulations 2003 S.I 2003/553).

5.3 This report sets out the work programme undertaken by the Committee to enable it to provide this assurance, and identifies areas where such assurance can not be given fully, and the reasons why.

6. Audit Committee Effectiveness and Impact

6.1 Effective audit committees can bring many benefits to local authorities including:

- increasing public confidence in the objectivity and fairness of financial and other reporting
- providing additional assurance of the robustness of the Authority's arrangements through a process of independent and objective review
- raising awareness of the need for internal control and the implementation of audit recommendations
- reinforcing the importance and independence of internal and external audit and other similar review processes - both internal and external

6.2 The Audit Committee's activities during its fourth year of operation were designed to build on the positive contribution made in its first three years to the improvement of governance arrangements across the Council. Details of the work programme are attached at Appendix A and the benefits achieved in each area are detailed in the remainder of this report.

6.3 A Core Cities Audit Committee Chairs' forum was created in 2008 (see also paragraph 10.2) to enable Chairs to share best practice and these meetings continue to be attended by the Chair.

6.4 The External Auditor has recently undertaken a review of the effectiveness of the Audit Committee and they have found that: *To be completed when reported at April meeting*

7. Independence

7.1 In 2009/10 the Audit Committee's membership was:

- Councillor Gollop (Chair)
- Councillor Brain (Vice Chair)
- Councillor Emmett
- Councillor Blythe

- Councillor Hassell
- Ken Guy - independent member (July 2009)
- Brenda McLennan - independent member (November 2009 - replacing Judith Hooper)

7.2 The Committee, like some other Core City Audit Committees, had determined the need for a second independent member with overlapping tenures to ensure continuity of external knowledge and understanding for the Committee into the future. The appointment process was successful and a second member - Ken Guy was appointed in July 2009. However, unfortunately the existing independent member - Judith Hooper, felt that due to work commitments, she was unable to continue with the Audit Committee and a further new independent member - Brenda McLennan was appointed in time to attend the November 2009 meeting.

7.3 Chartered Institute of Public Finance and Accountancy (CIPFA) best practice guidance suggests the need for independence of the Audit Committee, however some members of the Committee have continued to benefit from their involvement with the Resources Scrutiny Commission, in that they have gained an understanding of the performance, financial and otherwise, of the City Council and issues around risk management, control and governance. This issue was discussed at length by the Core Cities Audit Committee Chairs' Forum who invited CIPFA's Chief Executive and Chair of the Audit Panel to their January 2009 meeting. It was concluded that some aspects of the original CIPFA guidance were no longer appropriate and needed updating, including the need for a revision to the guidance in relation to total separation from scrutiny.

7.4 To assist in preserving the Committee's independence and provide a clear distinction between the Audit Committee and Scrutiny Commission roles, other measures have continued, including:

- the appointment of independent members from outside the City Council
- the Chair of the Audit Committee and the Chair of the Resources Scrutiny Commission are different Members
- ensuring clarity about the terms of reference for both the Audit Committee and the Resources Scrutiny Commission, to ensure a clear distinction in the roles.

8. Training and Development

8.1 In order to be effective, members of the Committee have recognised that, when serving on the Committee, they should be apolitical and objective, and have a clear understanding of risk management, internal control and governance issues, and how the arrangements in place across the City Council operate.

8.2 Training sessions were undertaken to assist the Committee's continued development. These included:

- the statutory requirements and the statement of recommended practice relating to preparation of the Statement of Accounts, together with an explanation of the different elements of the Statement. Sessions were held for the 2009/10 accounts in order to bring new Committee Members up to speed and as a refresher for existing Members;
- additional training on an individual basis as identified through the Council's in-house Counsellor Development Programme;
- additionally, an induction into the function of the Audit Committee and its working relationship with both Internal and External Audit was provided by

Internal Audit for both, Councillors new to the Committee and new independent members.

- 8.3 The Core Cities Audit Committee Chairs' forum has continued to explore the potential development of joint training for delivery to Audit Committees represented. Following rejection of a proposal from CIPFA, the Chief Auditors' Group are considering the matter further with a view to reporting back to the next Core Cities Audit Chairs' Group in June 2010.

9. Assurances

Risk Management

- 9.1 Following extensive consideration of risk management in its initial 2006/7 work programme, the Committee aimed to continue its confirmation that the Council's risk management arrangements were adequate to identify and manage risks, and that the Risk Management Policy Statement had been consistently applied in this respect. As such, the Committee received the Corporate and Directorate Risk Registers throughout the year. The table below details the Risk Registers received and the meeting at which they were reviewed.

Item	Risk Register	Meeting Date
1	Corporate Risk Register	31 st July 2009
3	Health & Social Care Directorate	25 th September 2009
4	Corporate Directorates	25 th September 2009
5	Neighbourhoods Directorate	13 th November 2009
6	Children Young People & Skills Directorate	13 th November 2009
7	Corporate Risk Register	15 th January 2010
8	City Development Directorate	15 th January 2010

- 9.2 Additionally the Committee received Risk Registers from a number of the Partnership Boards within the Bristol Partnership. All Risk Registers were presented as information items.
- 9.3 The Committee received an annual report on risk management activity and contributed to the revised Risk Management Policy Statement which was approved by Cabinet on 25th February 2010. It also received a report from Grant Thornton on the extent to which the Council met the expectations of the 2009 Comprehensive Area Assessment (CAA) Use of Resources KLOEs, and on the areas for improvement to ensure a satisfactory outcome to 2010 CAA Use of Resources assessment.
- 9.4 Grant Thornton found the Council's overall Risk Management arrangements to be comprehensive, but found improvements were required in the following key area:
- Risk Management in partnerships, namely failure to have partnership joint registers
- 9.5 At the time of the assessment Grant Thornton considered that “ the Council were in the process of developing and introducing joint risk registers, however fully operational partnership joint risk registers were not in place on completion of the assessment”.

9.6 From the information considered, and officer explanations received, the Committee considers work still needs to continue to embed risk management throughout the Council, and as such the assurances the Committee can provide remain limited in this respect. Whilst the overall framework is sound, concerns remain over the consistent application of its requirements. This is reflected in the 2009 CAA Use of Resources score of 2 in respect of the risk management sub-module of Internal Control - which means the process is not yet robust enough for the Council to regain its score of 3 which was obtained in 2007. However, consideration must also be given to the fact that the CAA is a different process from that of the Comprehensive Performance Assessment (CPA) and it is generally accepted that scores may remain the same or drop for the first assessment. *Risk Management will however remain a focus of the further work by the Committee in 2010/11.*

Partnership Governance

9.7 The Committee determined that partnership governance should continue to be included in its 2009/10 work programme following inclusion in the AGS for 2008/9 of:

- Bristol Partnership - improve the effectiveness of local partnership working to deliver improved outcomes;
- West of England Partnership - improve the effectiveness of sub-regional partnership working, to deliver improved outcomes; and
- Neighbourhoods - improve neighbourhood level planning and engagement, which included neighbourhood partnerships.

9.8 The Committee received a report on the protocol between the Committee, Internal Audit and the Bristol Partnership in September 2009. Additionally, it considered Partnership Assurance Checklists from all of the partnerships which encompass the Bristol Partnership. However, the progress made by each partnership varied with some being more established than others.

9.9 As previously stated, risk registers for a number of the partnerships in the Strategic Partnership, were considered by the Committee and again some were more comprehensive than others.

9.10 An assurance checklist was not received for the West of England Partnership in 2009/10, however the External Auditor undertook a review of the governance arrangement within the partnership and a report of their finding was presented to the Committee in April 2010.

9.11 Partnership governance is a key element of the CAA Use of Resources Key Line of Enquiry regarding "Governing the Business". In order to expedite improvement to the Council's performance in this area, the City Council has facilitated extensive work on improving partnership governance and it is anticipated that the 2010 CAA Use of Resource score for this module may reflect this input. *Notwithstanding this potential improvement in score, the inconsistency in embedding governance arrangements across the partnerships means the Committee is unable to draw appropriate assurance. Partnership governance will therefore be considered for retention in the work programme for 2010/11.*

Annual Governance Statement (AGS)

9.12 The Audit Committee's terms of reference include advising Council on whether

effective internal control systems have been established and are being maintained. One element of the work programme which enables the Committee to do so is the review of the AGS.

- 9.13 The Committee has continued to receive reports on the control framework and how the annual review and assurance process is conducted. The Chief Internal Auditor has confirmed that the review process was developed in line with best practice including receiving assurances regarding the control framework from all Strategic Directors, the S151 Officer, the Monitoring Officer, and the Service Director (Policy and Performance) . These officers have important responsibilities for ensuring an effective system of internal control is in place.
- 9.14 The review process has taken place for 2009/10, and the Committee has contributed to, and considered, the resulting AGS. Part of this consideration included a joint meeting with the Standards Committee in April 2010. The Standards Board for England has an expectation that Standards Committees will continue to have greater involvement in governance issues, and it was felt that as the joint meeting held in March 2009 was successful, and at the same time addressed this expectation, a similar process was adopted for 2009/10 to consider the draft AGS and potential AGS items.
- 9.15 From the work of the Committee, it is considered that the AGS accurately reflects the current governance and internal control arrangements.
- 9.16 In line with best practice, and recommendations from CIPFA/SOLACE in relation to Governance, a local Code of Corporate Governance was developed in 2008/9. The local Code was subject to review by both the Audit and Standards Committees at their joint meeting in April 2010 and as a result revisions to the Code were suggested. The Code will be presented to Full Council at the end of the review process.

Internal Audit Assurance

- 9.17 Internal Audit is a key source of assurance for both Members and officers on the effectiveness of the control environment. The Committee has a responsibility for ensuring that Internal Audit is effective in the provision of this assurance.
- 9.18 The Committee has received regular reports and information from the Chief Internal Auditor including:
- Internal Audit's risk based planning methodology and annual plans which were approved by the Committee.
 - Periodic reports detailing Internal Audit's activity, performance against targets and areas where the control environment needs attention.
 - An annual report from the Chief Internal Auditor which provided his opinion on the control environment and the effectiveness of proactive anti-fraud work undertaken.
 - 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. The Committee has been particularly concerned to ensure that Internal Audit's follow up on those areas

where significant deficiencies in the control environment have been identified , has been robust.

- 9.19 As part of the AGS review process, the effectiveness of the system of Internal Audit should also be reviewed annually. Receipt of the above reports has enabled the Committee to draw conclusions regarding:
- independence and objectivity
 - approach and performance against targets set
 - compliance with professional standards of Internal Audit as defined by CIPFA guidance
 - staffing resources in respect of numbers and skills
 - the working relationship between Internal and External Audit
 - the extent to which Internal Audit support the work of the Committee
- 9.20 In addition the Committee has considered the External Auditor's positive opinion that the service provided by Internal Audit is an effective management control within the Council's system of internal control.
- 9.21 The Committee is therefore satisfied that the system of internal audit in place is adequate and effective.

External Audit Assurance - Governance and Statement of Accounts

- 9.22 External Audit is an essential part of the process of accountability for public funds, providing an independent opinion on the financial statements, and reviewing aspects of governance and financial management as well as arrangements for securing economy, efficiency and effectiveness across the Council. Working closely with Internal Audit, the External Audit programme ensures that statutory responsibilities are delivered, without duplication of audit work. The Committee has reviewed both programmes to ensure this is the case.
- 9.23 Assurance received from the external auditors for 2009 (Grant Thornton), is detailed in the work programme. Most significantly, the external auditor's governance report summarises conclusions from their audit work and provides their statutory opinion on the accounts. It also provides their conclusion that in all significant respects, the City Council had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 9.24 Additionally, the Committee has received the auditor's Annual Audit and Inspection Letter for 2008/9 in January 2010.
- 9.25 In the new CAA theme - "Governing the business"- which encompasses good governance and internal control, the Council had an overall score of 2, scoring 3 for good governance, but only 2 for internal control, the main issue as previously stated being the failure to have operational joint partnership risk registers in place.
- 9.26 The Audit Committee are fully aware that that CAA represents a key issue for the Council and it is monitoring the position by way of receipt of the reports from the External Auditor detailing the Council's responses and actions to address the issues raised in the UoR outcomes, with a view to increasing the score for the following year.
- 9.27 In addition, the Committee has considered Internal Audit update reports on the extent to which the External Auditor's high risk recommendations have been

implemented during the year. It is envisaged that this process will continue in 2010/11 with the presentation of two reports a year, one in April and November.

- 9.28 From its work to date, the Committee is not aware of any areas of significant duplication or omission in the systems of governance in the authority which have not been adequately addressed.

Anti-Fraud and Whistle-blowing

- 9.29 Countering fraud and corruption is the responsibility of every Member and Officer. The Audit Committee's role in this area has been to oversee, monitor, support and enable effective actions to be taken to counter fraud. In doing so, the Committee has continued to receive reports from the Chief Internal Auditor in respect of fraud and irregularities investigated by Internal Audit, Housing Benefit Fraud work undertaken by the Benefit Fraud Team, and pro-active fraud work undertaken in respect of initiatives such as the National Fraud Initiative.
- 9.30 In January 2010 the Committee considered a Strategic Fraud report presented by Internal Audit, providing an update on the current developments in respect of fraud against the public sector and how the Council is responding to them. The report included a checklist regarding the counter-fraud arrangements in place within the Council the results of which provided some assurance that the arrangements in place are in general robust.
- 9.31 Benchmarking with other Local Authorities has continued to demonstrate the level of general fraud identified at the City Council remains at a relatively low level. This is encouraging, although an organisation of the Council's size is bound to suffer some such occurrences.
- 9.32 The Committee has praised the Housing Benefit Fraud Team for their consistently improved sanction performance.
- 9.33 From its work to date, the Committee is able to provide Council with assurance that a sound anti-fraud framework is in place, whilst acknowledging that a certain level of fraud will inevitably occur.

10. Looking Forward

- 10.1 The Audit Committee has made progress in its fourth year in undertaking a work programme which enables it to provide a robustly founded opinion to Council on the effectiveness of internal control, risk management and corporate governance.
- 10.2 During the coming year the Committee will further develop the assurances it is able to provide, and its contribution to an effective control framework, by:
- reviewing the work programme to ensure that the Committee maximises its contribution to the governance and control framework, at the same time practicing agenda management in order to ensure that all meetings are equally productive without losing sight of the key issues.
 - the Core Cities Audit Committee Chairs' Group will continue to meet three times a year. The meetings will continue to share best practice in terms of overall approach, agendas and workload topics, with a view to drawing on other authorities' experiences in developing the Committee's agenda for 2010/11. To this end Nottingham City Council are building on their review of individual Core Cities Terms of Reference for their Audit Committees' when compared with the

CIPFA baseline and conducting a further analysis of work programmes.

- a work programme that incorporates:
 - topics brought forward from earlier years, *to be agreed*
 - risk management - *monitoring the progress of embedding the risk management ethos through the Council through the receipt of the corporate and directorate risk registers*
 - review of the follow up of audit recommendations
 - further items to be inserted following finalisation of Committee's 2010/11 draft work programme.
- where information and reports received suggest a lack of response to internal control weakness or poor risk management arrangements, the Committee will hold officers to account for the lack of action.

Proposal

11. The report of the the Audit Committee, and the assurance and comments therein, be noted.

Other Options Considered

N/A

Risk Assessment

12. 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.

In the course of its work the Audit Committee has added value by initiating a planned review and improvement process across particular areas of weakness variously identified in this report. It has effectively strengthened the corporate effort to achieve the Council's objectives and to meet the requirements and standards overseen by the CAA, the external auditors and other regulatory bodies.

Equalities Impact Assessment

None necessary for this report

Environmental Impact Assessment

None necessary for this report

Legal and Resource Implications

Legal - none sought

Resource - none affected by this report

Appendices:

Appendix A Audit Committee Work Programme 2009/10

Appendix B Annual Governance Statement 2009/10

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:

IPF - A Toolkit for Local Authority Audit Committees 2008.

Audit Committee Reports and Papers from June 2008 to date.

Annual Audit and Inspection Letter 2008/09.