

**BRISTOL CITY COUNCIL
MINUTES OF THE ANNUAL MEETING OF
THE AUDIT COMMITTEE
HELD ON 18TH JUNE 2010 AT 9.30AM**

- A Councillor Geoff Gollop
- P Councillor Sean Emmett
- P Councillor Trevor Blythe
- P Councillor Hassell
- P Councillor Mark Brain
- P Ken Guy – Independent Member
- P Brenda McLennan – Independent Member

AC

1.6/10

ELECTION OF CHAIR

RESOLVED - that Councillor Mark Brain be elected Chair of the Audit Committee for the 2010/11 municipal year.

AC

2.6/10

ELECTION OF VICE-CHAIR

RESOLVED - that Councillor Sean Emmett be elected Vice-Chair of the Audit Committee for the 2010/11 municipal year.

AC

3.6/10

MEMBERSHIP OF THE COMMITTEE

RESOLVED - that the following membership for the 2010/11 municipal year be noted:-

**Councillor Geoff Gollop
Councillor Sean Emmett
Councillor Trevor Blythe
Councillor Patrick Hassell
Councillor Mark Brain**

**Independent Member – Ken Guy
Brenda McLennan**

AC

4.6/10

APOLOGIES FOR ABSENCE, SUBSTITUTIONS AND INTRODUCTIONS

Apologies were received from Councillor Gollop, Councillor Watson attended as a substitute.

AC

5.6/10

TERMS OF REFERENCE

RESOLVED - that the terms of reference agreed by Annual Council on 18th May 2010 be noted.

AC

6.6/10

DATES AND TIMES OF MEETINGS 2010/11

The Committee agreed to change the January meeting from the 21st January to the 28th January 2011. It was noted that both the Chair and the Vice-Chair would be absent at the meeting on the 24th September but would ensure substitutes would attend. The Grant Thornton representative confirmed that on his return, the Chair would be able to sign the accounts on behalf of the Committee.

RESOLVED - that meetings of the Audit Committee for the 2010/11 municipal year be held on the following dates commencing at 9.30am :-

**25th June 2010
24th September 2010
12th November 2010
28th January 2011
1st April 2011 *
8th April 2011**

(*Joint meeting with Standards Committee commencing 10am)

**AC
7.6/10 DECLARATIONS OF INTEREST**

None.

**AC
8.6/10 MINUTES OF THE AUDIT COMMITTEE – 16th APRIL 2010**

RESOLVED - that the Minutes of the meeting of the Audit Committee held on 16th April 2010 be confirmed as a correct record and signed by the Chair.

**AC
9.6/10 ACTION SHEET**

- a. Minute Number 92.4/10 (2). Members agreed that the training provided had been very useful and informative.
- b. Minute Number 93.4/10. The Chief Internal Auditor referred to the progression of the skills assessment, with the aim being to identify areas for further development. The final proposals would be presented to the Committee for comment at the September meeting.
- c. Minute Number 97.4/10. The West of England Partnership (WEP) Chief Executive had accepted the invitation to attend the a future Audit Committee meeting on 24 September. He would be asked to include the most up to

date WEP Strategic Risk Register as part of his report.

RESOLVED - (1) that the action sheet for the 16th April 2010 be noted.

(2) that the final skills assessment proposal be presented to the September Audit Committee meeting.

(3) that the WEP Strategic Risk Register would accompany the WEP Chief Executive's report.

AC

10.6/10

WORK PROGRAMME

The Committee considered a report of the Strategic Director Resources (agenda item no.11) inviting members to agree the draft work programme for 2010/11. The Work Programme had been formulated using feedback from Members received in previous meetings.

The Chief Internal Auditor invited Members to suggest any other areas of work they would like to be included on the Work Programme, and it was agreed that an update on BCP would be submitted to the January 2011 meeting.

The Representative from Grant Thornton referred to recent Governmental changes and directives. The Audit Commission issued central instructions which abolished to work of Comprehensive Area Assessment (CAA). This included Use of Resources work, which had been part of the evidence for Value For Money (VFM) work. Until the Audit Commission can provide further guidance it would remain unclear what statutory work would be required in the future. The Grant Thornton Representative was able to hypothesise what the work could focus on; Data Quality, Value for Money, Financial Management etc. This would not affect City Council audit work.

RESOLVED - that subject to the comments outlined above the draft work programme for 2010/11 be agreed.

AC

11.6/10

GRANT THORNTON'S INTERIM AUDIT REPORT 2009/10

The Committee considered a report of the Strategic Director Resources (agenda item no. 12) requesting comments on the Interim Audit Report.

The Grant Thornton Representative referred to the Use of Resources (UoR) Assessment for 2009-2010. Whilst a scored UoR assessment for 2009-10 would not be required, due to the abolished CAA, the work already completed would inform the Value for Money conclusion.

The 2009-10 Keys Risks related to national and other financial reporting matters, and the report identified work completed on these risks, as well as the further work planned

The key risks were identified and the following comments made;

- a. SORP 2009 – Accounting for Private Finance Initiatives (PFI)
 - It was confirmed that eight schools have been brought back onto the balance sheet and the Council was in the process of working through the detailed accounting entries. The process had also identified six schools kept on the balance sheet in error.
- b. SORP 2009 – Accounting for National Non Domestic Rates and Council Tax
 - The implemented changes related to the accounting for national non domestic rates and council tax in the Council's financial statement. Local Authorities must account for transactions on an agency basis, i.e. the Council only discloses its own share of debtors and creditors of the Collection Fund. For example, the Police Authority set a precept each year and the Council estimate the level of tax and ongoing reports are provided through the year. The Police Authority would be paid what had been collected, this could vary from the original estimate.

- c. International Financial Reporting Standards.
- In order for an Authority to achieve the introductions of *IFRS by 2010-11* the *LAAP bulletin 80* recommends that a balance sheet as at 1st April 2009 should be prepared, by the end of 2009. There had been national concern regarding how prepared local authorities had been. The Council had appointed an external specialist on a temporary basis, which was viewed as a positive move.
 - The specialist would also be able to provide feedback over the proposed approach for accounting for holiday pay and leases under the IFRS. Organisations have various ways of recording holidays; the sample approach would be the only practical solution. The Grant Thornton Representative referred to the introduction of the International Accounting Standards, the accounts next year would be displayed differently as a result of this introduction.

The key risks, work completed and further work planned relating to the Key Local Audit Matters was summarised.

The Key Local Audit Matters were identified as;

- a. Asset Valuation
- b. Accounting for Fixed Assets
- c. Adult Social Care Expenditure
- d. Housing Benefit Overpayments
- e. Provisions and Reserves
- f. Presentation and Format of Accounts.

The following comments were made;

- c. Asset Valuation
 - FRS 11 requires the Council to formally assess its assets for indicators of impairment and assess the impact of these on the current value of its assets. There would be a risk that assets are not recorded in the financial statement at appropriate values that reflect current market conditions.
- e. Adult Social Care Expenditure Care Expenditure
 - The correct figure for the net overspend was now £0.8 million as this had continue to reduce.
- f. Housing Benefit Overpayments

- The debtor balance reported in the accounts was not determined on the basis of amount reported within the Council's housing benefit system. A clearly documented rationale for the determination of the bad debt provision was not provided. It was explained that recovery of housing benefit overpayment can be very difficult, especially when claimants moved areas. The debt would never be written off as people could return to the area and the overpayment should be sought. The poor external software assessed the debt incorrectly and underestimated the figures.

g. Provisions and Reserves

- Reference was made to the review of the 2008-09 accounts, which identified balances that did not meet the FRS12 criteria 'provisions'. The Grant Thornton Representative highlighted that this had been due to incorrect classification; balances were classified as provisions, but did not comply with the criteria. The Central Finance Team had been very clear about the classifications and a lot of work had taken place within individual services to ensure guidance had been followed correctly. More controls were now in place to ensure this should not happen again.

It was also noted;

- 2.15 of the report - a debt rescheduling exercise had taken place for commercial reasons.
- The Council repaid £50.45 million debt to the Public Works Loan Board (PWLB) and incurred £15.7 million premium as part of the debt rescheduling exercise. Grant Thornton has worked with Finance Officers, providing advice over debt rescheduling and assessing the debt portfolio. Due to the currently low interest rates it had been assessed as a good time to borrow money. The Council currently employs one and half FTE, managing of cash balances would be a main role. BCC has created a much more overt treasury management strategy since the collapse of the Icelandic banks. The Resources Committee would be responsible for ensuring the overall impact of the changes. Members of the Audit Committee would be invited to attend any training provided to the Resources Committee that related to this area, due to their common interest.
- It was confirmed that the Council employs professional in-

house valuers.

- Following an enquiry related to asset valuation, it was confirmed that specialist assets included items like schools and specific valuations would be required. All schools would be assessed together in one block and consistency would be required. If significant changes in valuation had been identified, all the asset valuations would have been reviewed.

RESOLVED - that Grant Thornton's Interim Audit Report 2009/10 be noted.

**AC
12.6/10**

**DRAFT RESPONSE TO THE EXTERNAL AUDITORS
REVIEW OF THE EFFECTIVENESS OF THE AUDIT
COMMITTEE**

The Committee considered a report of the Strategic Director Resources (agenda item no. 13) recommending consideration and agreement of the draft responses to Grant Thornton's findings in the Action Plan, for Internal Audit to take forward.

The Chief Internal Auditor referred Appendix A, the action plan. The following comments were made;

- i. Item 4. Members agreed that it would be important for the Committee to remain a politically neutral forum. It was confirmed that this issue had arose due to two separate incidents and had not be regarded as an on going concern.
- ii. Item 12. Reference was made to current advice received from the Audit Commission and the affect on the work load planning for the Audit Committee. It was agreed that the addition of 'ad hoc' items to the Committee Agenda would not be normal procedure, but some flexibility would be required .

RESOLVED - that the draft responses to Grant Thornton's findings in the Action Plan be agreed for Internal Audit to take forward.

AC

13.6/10 BENEFIT FRAUD INVESTIGATIONS TEAM – ANNUAL REPORT 2009-10

The Committee considered a report of the Strategic Director Resources (agenda item no. 14) informing the Committee of the work of the Benefit Fraud Investigation Team over the last year and identifying issues which would affect the Team in 2010/2011. The Report will be considered by the Executive Member for Efficiency and Value for Money on 23 June 2010.

The Chief Internal Auditor made reference to the most salient points contained within the report, which included;

- i. The Proceeds of Crime (POCA) investigations had been an increasingly important feature of the work within the Benefit Fraud Investigations Team. If money is not repaid then defendants are returned to prison. The POCA legislation is useful in ensuring criminals don't profit from their crimes.
- ii. During the first half of 2009/10 the investigations team achieved 14 sanctions per officer, which had increased from the previous years figure. The Team will attempt to maintain this level of performance, but a recent reduction in staffing could make this difficult to sustain. Members expressed concern that the performance of the Investigations Team could reduce due to the insufficient staffing levels. It was agreed that a brief report which outlines the reduction in staff and the impact of the service would be beneficial, this would be presented at the next meeting in September. The report would also include information on the sanction targets and what the financial gain to the Council when fraudulent claims are identified.
- iii. It was agreed that Benefit Fraud Investigations Team Report could be made more informative with the inclusion of benchmarking information from other Local Authorities, including information on upper and lower quartiles etc. The Chief Internal Auditor confirmed that a review of the findings from an inspection of the Benefit Service would be reported by the Audit Commission July, and could be incorporated into the report to the audit Committee in September.
- iv. Reference was made to the benefits of joint working, the Chief Internal Auditor confirmed that the Council endeavoured to work with other agencies to ensure that

the maximum benefit would be received, i.e. working with licensing and the police to ensure taxi drivers had a relevant licence and would not be entitled to claim benefits.

- v. In response to a query related to the number of people who were not identified as being fraudulent, the Chief Internal Auditor confirmed that it was important to differentiate between a claim made in error and a claim made fraudulently. It would be very difficult to measure the number of people who were not investigated, the Investigation Team would normally be confident on a prosecution, prior to inviting a person to an interview under caution.
- vi. A description was provided of the Audit Commission – Key Lines of Enquiry and the Benefit Fraud Hotline, Publicity and Awareness Training.
- vii. The Chair highlighted that he would be meeting members of the Audit Team following the Audit Committee meeting next week.

RESOLVED - (1) that the Annual Report be noted.

(2) that a brief report which outlines the reduction in staff and the impact of the service would be brought the September Audit Committee meeting.

AC

14.6/10

INTERNAL AUDIT PLAN 2010/11

The committee considered a report of the Strategic Director Resources (agenda item no.15) recommending approval of the Annual Audit Plan coverage. The report sets out the rationale behind the Internal Audit planning process, and provides details of the intended coverage for 2010/11.

The Chief Internal Auditor summarised the significant issues in the reports, these being;

- The role of the Audit Committee in relation to the Internal planning process
- The current planning process

- The Audit Reporting Protocol
- The Internal Audit Annual Plan

The following comments were made;

- The Committee discussed the amount of information provided as part of the report and how useful this information was. Members agreed that it would be important that this information continued to be provided in order for Members to have the opportunity to highlight areas of concern.
- The Chief Internal Auditor confirmed that the matrix produced a score, which identified the high risk areas. However, this could be manually overridden if thought necessary.

RESOLVED - that the Annual Audit Plan 2010/11 be approved.

AC

15.6/10

EXCLUSION OF PRESS AND PUBLIC

RESOLVED - that under Section 100A(4) of the Local Government Act, the public be excluded from the meeting for the consideration of the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Part I of Schedule 12A to the Act as amended by the Local Government (Access to Information) (Variation) Order 2006.

AC

16.6/10

INTERNAL AUDIT – ANNUAL REPORT 2009/10

The committee considered an exempt report of the Strategic Director, Resources (agenda item 17) providing details of the work completed by Internal Audit during 2009/10 and the Chief Internal Auditor's overall opinion on the control framework.

The Chief Internal Auditor summarised the salient issues;

- The Chief Internal Auditors opinion on internal control and risk exposure
- A summary of the Internal Audit Activity during 2009/10
- Details of follow up work and matters escalated
- Fraud and irregularity issues
- Effectiveness of the system of Internal Audit
- Themes affecting the Internal Audit Plan for 2010/11.

Reference was made to the Audit Commission National Fraud Initiative 2008/9 Report, recently received.

The group discussed the report and the following comments were made;

- Members requested that once the Ombudman's finding in relation to the Council had been received, a summary report would be brought to the Audit Committee in November for consideration.
- Subjects with the Audit Option of N/A would indicate that the Audit Section have undertaken work in this area, but not of a nature that would give rise to an Audit "opinion"

RESOLVED - (1) that the Internal Audit Annual Report 2009/10 be noted

(2) that a report summarising the Ombudmans findings be provided to the Audit Committee in November.

THE FOLLOWING ITEMS WERE CONSIDERED IN OPEN SESSION

AC

17.6/10

CORPORATE RISK REGISTER

The committee considered a report of the Chief Internal

Auditor (agenda item 18) in relation to the corporate risk register.

RESOLVED - that the report relating to the Corporate Risk Register be noted

AC

18.6/10

ACTION SHEET FROM THE JOINT STANDARDS AND AUDIT COMMITTEE MEETING – 9TH APRIL 2010

RESOLVED - that the Action Sheet from the joint meeting of the Standards and Audit Committee held on 9th April 2010 be noted.

AC

19.6/10

STANDARDS COMMITTEE DRAFT ANNUAL REVIEW FEBRUARY 2009 – JANUARY 2010

A more up to date copy of the document was tabled for the Committee.

RESOLVED - that the Standards Committee Draft Annual Review February 2009 – January 2010 be noted.

AC

20.6/10

DATE OF NEXT MEETING

RESOLVED - that the date of the next meeting of the Audit Committee be held on Friday 25th June 2010 at 9.30am.

(The meeting ended at 11.40am)

CHAIR