

BRISTOL CITY COUNCIL**Audit Committee****8th April 2011****Report of: Strategic Director (Corporate Services)****Report Title: Audit Committee Draft Annual Report to Council 2010/11****Ward: Citywide****Officer presenting report: Richard Powell, Chief Internal Auditor****Contact Telephone Number: 0117 92 22448****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
- 9.6 regarding partnership governance
- 9.10 regarding internal control and the Annual Governance Statement (AGS)
- 9.15 regarding internal audit
- 9.21 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:** 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 2010 to date.

BRISTOL CITY COUNCIL**FULL COUNCIL****28th June 2011****Report of:** The Audit Committee**Title:** Audit Committee - Annual Report 2010/11 (Draft)**Ward:** Citywide**Officer Presenting Report:** Councillor Mark Brain, Chair of the Audit Committee (2010/11)**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 2010/11, 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 9.10	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 9.15	the Committee's assurance on the effectiveness of Internal Audit
Para 9.21	summary of external assurances on the internal control, risk management and governance arrangements
Para 9.29	summary of anti-fraud assurances
Para 9.34	areas of Special/Public interest
Para 9.35	Corporate issues
Para 10	the way forward in developing the Audit Committee's role and effectiveness

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 (Corporate Services)
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 fifth 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.
- 4.2 Following the introduction of an Annual Governance Statement (AGS) in 2007/08, the AGS has 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, 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.
- 5.2 The Committee's Terms of Reference were, for 2010/11, 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 fifth year of operation were designed to build on the positive contribution made in the Committee's previous four 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 undertook a review of the effectiveness of the Audit Committee in 2009/10 utilising the Chartered Institute of Public Finance and Accountancy (CIPFA) Better Governance Forum toolkit and available best practice. The External Auditor found that, overall the Committee operates effectively and demonstrates a high level of compliance against CIPFA requirements. The review identified an number of areas of good practice as well as opportunities to strengthen the Committee's arrangements further. The subsequent recommendations made were taken forward in 2010/11 and implemented as appropriate.

7. Independence

7.1 In 2010/11 the Audit Committee's membership was:

- Councillor Brain (Chair)
- Councillor Emmett (Vice Chair)
- Councillor Gollop
- Councillor Blythe
- Councillor Hassell
- Ken Guy - independent member
- Brenda McLennan - independent member

7.2 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.

7.3 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. A session was held for the 2009/10 accounts in order to provide as a refresher for existing Members. A similar session is planned for the 2010/11 accounts;
- training on an individual basis as identified through the Council's in-house Counsellor Development Programme;
- additionally, a skills assessment of the Committee was undertaken by Internal Audit, and reported to the Committee's April 2011 meeting, with a view to providing a training programme tailored to the Committee's needs in 2011/12.

8.3 The Core Cities Audit Committee Chairs' forum continued to explore the potential development of joint training for delivery to Audit Committees represented. However, a decision was taken at their February 2011 meeting that the responsibilities of each committee were sufficiently diverse to preclude the provision of a meaningful generic training course for Chairs and Members. Therefore, the decision was taken that whilst a generic programme would not be taken forward, individual Councils' who undertook training would circulate the training material to other Core Cities for their use.

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 continue to receive 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	18 th June 2010 28 th January 2011
2	Health & Social Care Directorate	27 th September 2010
3	Corporate Directorates	27 th September 2010
4	Neighbourhoods General fund	12 th November 2010
5	City Development Directorate	28 th January 2011
6	Children Young People & Skills Directorate	28 th January 2011

- 9.2 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 27th January 2011.
- 9.4 As part of the Risk Management Annual Report, the Committee considered the results of an internal survey on Risk Management facilitated by Internal Audit. The Committee expressed their concern with regard to the level of Risk awareness throughout the Council, as demonstrated by the survey results. The individual Directorates were made aware of the survey results in order to give them the opportunity to make improvements where necessary. Additionally, Internal Audit are working to provide an on-line E-learning package on Risk Management which will target the survey findings.
- 9.5 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 was reflected in the results of the survey undertaken by Internal Audit. Risk Management will therefore remain a focus of further work by the Committee in 2011/12.

Partnership Governance

- 9.6 The Committee determined that partnership governance should continue to have limited inclusion in its 2010/11 work programme following inclusion in the AGS for 2009/10 of:
- Partnership working - Continue to strengthen arrangement for partnership

working including Bristol Partnership, West of England Partnership and Neighbourhood Partnerships.

- 9.7 The Committee received a report on the Bristol Partnership Governance Sub Group work on Value for Money (VfM) and joint Risk Register. This report included details of recently introduced Scorecards for Partnerships as a way of measuring partnership success and achievement of objectives. However, the Committee did not feel that enough evidence was provide to demonstrate that the partnership was achieving VfM and as such, considered that more work was required.
- 9.8 The Committee also received a report on the West of England Partnership (WoEP) which was in response to stage 1 of the external auditors review of the partnership. Stage 2 of the review was halted due the the abolition of the Comprehensive Area Assessment (CAA) by the Coalition Government. There is currently uncertainty with regard to the relationship between the WoEP and the recently formed Local Enterprise Partnership (LEP) and the effect the LEP will have on the WoEP. However, the status of WoEP and the LEP will be kept under review to ensure future partnership arrangements are fit for purpose.
- 9.9 Partnership governance implications and any new proposals will continue to be assessed and brought into the Committee's Work Programme if necessary.

Annual Governance Statement (AGS)

- 9.10 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.
- 9.11 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 (Strategy and Member Development) . These officers have important responsibilities for ensuring an effective system of governance and internal control is in place.
- 9.12 The review process has taken place for 2010/11, 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 2011. With the proposed abolition of the Standards Board for England, as a result of the Localism Bill, and with it the statutory need for Local Authorities to have a Standards Committee, it is currently not clear how the Council will proceed in the next municipal year. Therefore, the draft AGS may in future years be considered by the Audit Committee alone.
- 9.13 From the work of the Committee, it is considered that the AGS accurately reflects the current governance and internal control arrangements.
- 9.14 In line with best practice, and recommendations from CIPFA and the Society of Local Authority Chief Executives (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 2011 and as a result revisions to the Code were implemented. It

was not considered necessary to take the Code to Full Council on this occasion as the amendments did not have a fundamental impact on the context of the Code.

Internal Audit Assurance

- 9.15 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.
- 9.16 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.
 - Half year report detailing Internal Audit's activity, performance against targets and areas where the control environment needs attention.
 - An Annual Report from the Chief Internal Auditor, in line with best practice in the CIPFA Code for Internal Audit in Local Government, 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.
- 9.17 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
- 9.18 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.
- 9.19 There has been a recent consultation on the Accounting & Audit Regulations with no fundamental changes proposed, apart from a slight relaxation on the timetable for consideration of the Statement of Accounts. The Committee will address any changes once the new Regulations have been issued.
- 9.20 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

- 9.21 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.
- 9.22 Assurance received from the external auditors for 2010/11 (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.
- 9.23 Additionally, the Committee has received the auditor's Annual Audit and Inspection Letter for 2009/10 in November 2010.
- 9.24 Due to the abolition of the CAA, the External Auditor was no longer required to score the Council on their arrangements in specific areas and as such the External Auditor's work in those areas ceased part way through 2010/11. However, the External Auditor continued to consider the requirements under the CAA as good practice and as such took them into consideration when completing their Value for Money and Use of Resources Conclusion. The outcome of this is detailed in 9.21.
- 9.25 It is understood that a revised method of assessing the performance of local authorities is currently under review, but the criteria will not be as prescriptive as that of the CAA.
- 9.26 The Committee has also been made aware of the proposal to disband the Audit Commission within the next two years. Early indication are that the new audit regime will be less restricted and more open to competitive tendering, thereby allowing each authority to pursue the best value for money for their external audit provision. It is currently not clear who will take on the governance/quality control role within the arrangements, although early indication are that this may be the National Audit Office. The Committee will keep up to date on this matter as and when new information is received.
- 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 2011/12 with the presentation of two reports a year.
- 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 2011 the Committee considered a Fraud Update 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 summary of areas, as detailed below, where the risk of fraud is perceived to be on the increase together with the intended action for 2011/12.

- Housing Tenancy
- Housing Benefit
- Procurement
- Recruitment
- Council Tax Single Person Discount
- Personalised Budgets

The Committee recognise that the work of Internal Audit on Tenancy Fraud has been praised by the Department of Communities and Local Government (CLG), and as a result the Council has secured further funding to carry on the work on Tenancy Fraud in 2011/12, with the possibility of continued funding in the following year.

Additionally, an update on the action plan of planned improvements to the Council's counter-fraud arrangements, the original having been raised in the previous year, was included. There were some areas where work was not yet complete as a result of other priorities, however work continues in this area and those actions which were not completed in 2010/11 will be carried on into 2011/12 and a further update on their progress will be brought to the Committee in the next Fraud update.

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.

Areas of Special/Public Interest:

9.34 The Committee have considered a number of reports in connection with the additional funding provided to Bishop Road School, which was and continues to be a matter of public interest. (*complete once April meeting has taken place*)

Corporate Issues

9.35 The Committee continues its consideration of matters which have a corporate impact and as such has received reports on the following areas:

- Information Security
- Business Continuity
- Members Declarations of Interests, Gifts and Hospitality
- Corporate Performance Team.
- Business Transformation

The Committee's involvement and support has brought about improvements in areas such as:

- Business Continuity Planning
- Information Security
- Partnership Working

It is envisaged that the Committee will continue to maintain a watching brief on these and other corporate areas in order to support and promote further improvements.

10. Looking Forward

- 10.1 The Audit Committee maintained a high level approach in its fifth 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 2011/12.
 - a work programme that in addition to consideration of statutory and other key items as "those charged with governance" incorporates:
 - topics brought forward from earlier years:
 - Business Continuity Planning
 - Information Security
 - Business Transformation
 - risk management - monitoring the progress of embedding the risk management ethos throughout the Council through the receipt of the corporate and directorate risk registers
 - review of the follow up of audit recommendations
 - partnership governance - a watching brief to be maintained in this area, with reports to the Committee as and when required.

- *Other issues Members would like included*

- 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 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 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 2010/11
- Appendix B Draft Annual Governance Statement 2010/11

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 2009/10.
- Annual Report to those charged with Governance 2009/10