

BRISTOL CITY COUNCIL

MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
HELD ON 8TH APRIL 2011 AT 9.30 A.M.

A Councillor Blythe
P Councillor Brain
P Councillor Emmett
P Councillor Gollop
P Councillor Hassell

P Ken Guy - Independent Member
P Brenda McLennan - Independent Member

AC
91.4/11 APOLOGIES FOR ABSENCE, SUBSTITUTIONS AND INTRODUCTIONS

Apologies for absence were received from Councillor Blythe.

AC
92.4/11 PUBLIC FORUM

None

AC
93.4/11 DECLARATIONS OF INTEREST

None

AC
94.4/11 WHIPPING

None

AC
95.4/11 CHAIR'S BUSINESS

i. Service Director, Finance

The Service Director, Peter Robinson has recently suffered a heart attack as a result of a hereditary condition. Mr Robinson had now been released from hospital and it was hoped he would recover well. It was agreed a letter of good wishes would be sent on behalf of the Audit Committee.

ii. Accounts and Audit Regulations 2011

The Chair summarised the information laid before Parliament on 21st March 2011 and coming into force on 31st March 2011, affecting the 2010/11 Accounts.

The main provisions stated;

- the draft Statement of Accounts would only need to be signed by the S151 officer, and not considered by Members, before submission for audit. A number of bodies responded to the consultation by saying they would continue to submit to Members once signed, and CLG supports this as good practice. Bristol had adopted this approach and the Committee would need to decide whether they wish this to continue. (Related CIPFA guidance suggests that approval of the Accounts by the Audit Committee could call into question the Committee's independence, and best practice would be for the Audit Committee to review, and others approve. Again this will need a decision and could affect the Committee's ToR).
- Relevant bodies now have to prepare an Annual Governance Statement (AGS) rather than a Statement on Internal Control. The AGS will now accompany the Accounts rather than be part of it.
- Bodies would have to "undertake an adequate and effective internal audit" rather than "maintain".
- Annual review of "system of internal audit" has changed to annual review of "internal audit".
- Internal Audit access rights were re-worded.

iii. Future of Local Public Audit Consultation

- On 30 March CLG published a 58 page consultation document, following the demise of the Audit Commission. Anecdotal evidence now suggests the Commission may survive past the scheduled closure date of the end of 2012, perhaps even as far as mid 2015. The consultation closes on 30 June.
- The document outlines the arrangements to be put in place following the demise of the Commission. It envisages a

statutory framework overseen by the National Audit Office, with assistance from the Financial Reporting Council.

- Bodies would appoint their own external auditors. If this came into force, the consultation document envisages that Full Council would make the decision, based on the recommendation of the Audit Committee.
- There are also some proposals around Audit Committees which suggest an independent Chair and Vice Chair.
- The Grant Thornton (GT) Representative encouraged the Audit Committee to respond to the CLG consultation to ensure a wide range of views would be taken in to consideration.
- The Committee discussed the advantages of Audit Committee Independent Members and the effective contributions made. Councillor Gollop suggested that an independent Chair would require great commitment. Elected Members receive training and had experience with Council processes, Councillors would be privy to a wider selection of information on a more regular basis. It could be difficult for the Independent Members to have the same relationship with Council officers as the elected Members. The current equilibrium of the Audit Committee could be disrupted should the position of the Chair be altered to an independent Member.

iv. It was agreed that agenda item number 13 – *Internal Audit – The Effectiveness of the External Auditor* would be considered before agenda item number 12 – *Grant Thornton – 2010/12 Annual Fee Letter*.

RESOLVED - That a further report on the Future of Local Public Audit Consultation be brought to the Audit Committee meeting in June for further discussion on a response to the consultation.

**AC
96.4/11**

MINUTES - AUDIT COMMITTEE - 28TH JANUARY 2011

- Typographical errors were highlighted and would be updated;

- Minute Number 71.1/11 – Action Sheet
Further clarification was requested with regard to the statement:

“Closing the accounts down had not been an effective way to predict spending and this methodology had a detrimental impact in the past”.

Councillor Gollop referred to his previous concern that a full year financial prediction would not be an effective way to guess spending. Extrapolation to the year end could be ineffective – the actual figures would need to be supplied in addition to the predicted figures.

The rewording would be included in the minutes to ensure clarity.

- Minute 73.1/11 – Bristol Partnership Risk Assessment and Value for Money Update
It was agreed that additional text would be added to the minutes to read:

*“It was confirmed that **LAA targeted** measures were assigned to Lead Agencies”.*

The Audit Committee Members agreed that typographical errors would be highlighted prior to the meeting directly to the Democratic Services Officer.

- RESOLVED -**
- (1) that the Audit Committee Members notify the Democratic Services Officer of typographical errors noted prior to the meeting;**
 - (2) that the minutes of the meeting of the Audit Committee held on 28th January 2011 be confirmed as a correct record and signed by the Chair.**

AC

97.4/11 **MINUTES - SPECIAL MEETING - AUDIT COMMITTEE - 16TH
FEBRUARY 2011**

Bishop Road School

The Chair referred to the recent joint Audit and Standards Committee meeting where it had been agreed to move the extra Audit meeting to later in the calendar. This would allow more time to collate all the relevant information. All people who had expressed an interest in the issue would be notified of the change of meeting date. The Chief Internal Auditor agreed that it would be beneficial for the report to remain in the public domain to ensure transparency due to the controversial nature of the information. However, the standard rules regarding exempt items must be adhered to. The possibility of webcasting the meeting would be explored and a draft report would be circulated to Members for comment, prior to the agenda despatch.

Resolved;

- (1) that the options regarding web casting the meeting be explored;**
- (2) that a draft report be circulated to Audit Members for comment, prior to the Agenda despatch.**
- (3) that the minutes of the special meeting of the Audit Committee held on 16th February 2011 be confirmed as a correct record and signed by the Chair.**

AC

98.4/11 **ACTION SHEET**

Minute Number 59.11/10 Benefit Fraud Investigation Team: Half Year Report and Update.

The Chief Internal Auditor confirmed that a reminder letter had been sent to the Head of the Fraud and Error Strategy Division at the Department for Work and Pensions on behalf of the Executive Member, Councillor Mark Wright, regarding the lack of financial incentive for reducing fraudulent benefit claims. No reply had been received and the Chief Internal Auditor suggested this was probably as a result of the proposals for a Single Investigation Service from 2013. These proposals implied that Fraud Investigation would be removed from Local Authorities' control. Any response received would be shared with the Audit Committee.

RESOLVED - that the action sheet be noted.

AC

99.4/11 WORK PROGRAMME

RESOLVED - that the work programme be noted.

AC

100.4/11 WASTE CONTRACT GATEWAY REVIEW

The Committee considered a joint report of the Service Director, ICT and PPPM and the Service Director, Environment and Leisure (agenda item no. 9) noting the Gateway Review process.

The Service Director, ICT & PPP and the Waste Disposal Authority Manager were in attendance to present the report.

The Gateway Review process had been widely used across central government to support successful delivery of major programmes and projects. It offered an independent view of risks and mitigating actions to the individual who would be accountable for leading a major programme or project. The Waste Gateway Review had received an Amber rating i.e. successful delivery appeared feasible but significant issues already existed which required management attention. These appeared resolvable but had needed to be addressed promptly.

The Committee were invited to ask questions and the following comments were made;

- i. The Waste Disposal Authority Manager confirmed that the waste contract would be written with agreed targets and performance criteria. Financial penalties would be applied and the contractor would absorb more of the risk than in the current contract. If the waste company closed, the contract would be subject to the re-procurement process applied to all Council contracts.
- ii. Councillor Gollop, involved as a lay person, had been impressed with the knowledge of the external advisor and the way the review had been conducted. Concerns were expressed because of the Amber rating received.
- iii. The Waste Disposal Authority Manager confirmed that following the success of the Waste Gateway Review, further reviews would be scheduled in advance which would be shared

with the Audit Committee. Lessons had been learnt from the Waste Contract Review and the Council would need to ensure adequate time allocation for future contract negotiations.

iv. The confidentiality of the review was core to the process, it allowed officers to be open and honest. The Accountable Officer would present a report to the Executive Member for consideration.

v. The Waste Review had highlighted the need for a Lead Negotiator and for officer training in competitive dialogue. Some generic skills could be acquired, but some reviews would also require experts in the field to be part of the negotiations. Accountability for the contract would be the responsibility of any expert (s) employed, as well as the Senior Responsible Officer (SRO).

vi. All major waste contractors had expressed an interest the Council waste contract due to the large size and costs involved.

vii. Councillor Gollop suggested that by sharing the results of the reviews, best practice could be applied to other procurements and should be reviewed by an independent person.

viii. The Waste Disposal Authority Manager highlighted that the Gateway process followed Government agreed guidelines and the integrity of the process would need to be honoured. It should be the decision of the SRO how the results are processed.

ix. Information contained in the review reports would normally be commercially sensitive and only certain outcomes would be available under a Freedom of Information (FOI) request.

x. The Chief Internal Auditor highlighted that the report had been presented to the Committee following the Grant Thornton (GT) transformation report in November. The report provided the Members with a demonstration of how the Gateway process worked. A schedule of gateway reviews completed and results, and of forthcoming reviews could be provided to the Committee but it would be the process that required consideration, not individual reviews.

xii. Local Partnerships (LP) would be joint funded by the Treasury and the LEA and supported the successful delivery of Government Projects; identifying experts to assist in projects such as gateways reviews.

RESOLVED - (i) that the report be noted;

(ii) that Internal Audit include a list of completed Gateway reviews and the results, and of forthcoming reviews in its periodic reports.

AC

101.4/11 CORPORATE PERFORMANCE TEAM

The Committee considered a report of the Service Director, Finance (agenda item no. 10) noting the progress being made in response to the recommendations in the Grant Thornton Annual Audit Letter 2009-10.

The Finance Business Partner for Health and Social Care Denise Hunt, presented the report and referred to the need to relate resources to performance; prioritisation would need to take place with all officers, not just the finance team.

The Committee were invited to ask questions and the following comments were made;

- i. The Value for Money (VFM) report required agreement with the Senior Leadership Team (SLT) and the Cabinet, prior to presentation to the Audit Committee. This would be added to the 2011/12 work programme.
- ii. Achievement would be rigorously assessed using the Council's standard reporting framework – i.e. SLT and the Cabinet in conjunction with the external auditors.
- iii. The Finance Business Partner acknowledged that reports would need to be timely – information should be available for people other than the Executive earlier than had previously been the case. Councillors would not be reliant on officer interpretation alone. This would be especially important in the current financial climate.
- iv. A review of management arrangements would take place following the Health and Social Care transformation process and the merging with Children and Young Peoples Services. In house services would become more efficient and the focus would be on the VFM agenda.

v. Councillor Gollop referred to the use of Score Cards, considered a powerful tool. The Cards indicated that there was no correlation between the assessed level of service and the performance of the staff - performance of services and performance management were not linked.

vi. The Finance Business Partner referred to the future development of the score cards which would include visual representations; areas that would need improving and trends identified. The 2010-11 score cards had indicated that service levels were maintained from 2009-10, staff were performing well but some services needed improvement. National Statistics would also be included, as well as planned improvements.

RESOLVED – (1) that the report be noted;

(2) that the Value for Money report be added to the Audit Committee work programme for 2011-2012.

AC

102.4/11

INFORMATION SECURITY - PROGRESS REPORT ON E-LEARNING UPTAKE

The Committee considered a report of the Strategic Director (Corporate Services) (agenda item no. 11) noting progress on e-learning take-up.

i. The Manager, Information Management presented to the report and referred to the disappointment in target achievement. From the time of writing the number of staff who had completed the training had increased to 69%. The following course of action was planned;

- Analysis by team to identify key areas of low take up, followed by individual discussions with the managers of those areas;
- Personal emails from Will Godfrey, Strategic Director - Corporate Services, (SIRO) to all Officers who had not completed the training.

ii. The Information Management Manager expressed concern over the Council culture reflected in the low participation rates, despite reminders and other actions taken. Only officers who used IT systems were required to complete the training

iii. The Committee discussed the report and the options available for ensuring the completion of the relatively basic training:

- It was suggested that making the training a mandatory part of the Personal Management Development Scheme (PMDS) would encourage completion, an officer would be unable to score a mark higher than two if the training had not been completed.
- A list of Senior Officers could be requested – All 1st, 2nd, 3rd and 4th tier Officers who had not completed the training could be provided to either the Executive Member or the Audit Committee to ensure the correct message had been cascaded through all services.
- For new employees the training could become part of the induction package, an officer not being confirmed in post until it was completed.

RESOLVED - (1) that the Information Security training becomes a mandatory part of the Personal Management Development Scheme (PMDS), Officers would be unable to receive a score higher than 2 if the training had not been completed;

(2) that a further report would be presented to the Audit Committee in three months time, if significant improvements had not been noted

(3) that the report be noted.

AC

103.4/11

INTERNAL AUDIT - THE EFFECTIVENESS OF THE EXTERNAL AUDITOR

The Committee considered a report of the Strategic Director (Corporate Services) (agenda item no. 13) summarising the findings of a review of the effectiveness of the External Auditors, Grant Thornton.

The Chief Internal Auditor indicated all officers who had regular dealings with the External Auditors, had been asked to complete a questionnaire as part of the review.

The GT Representative made the following comments;

- i. The external auditors had been pleased with the outcome, the areas of concern would be addressed and the timeliness of reporting would be considered in conjunction with the Council's Internal Audit Section. An updated protocols document would be produced.
- ii. The External Auditors would forward plan the year using sector knowledge in conjunction with discussions with senior officers. For example, the focus on the previous years' work, e.g. Health and Social Care (HSC) had been identified as requiring in depth review. The VFM conclusion would be performance related and would seek to deliver requirements as well as being focused on areas where value could be added.
- iii. Performance assessment should be two way. A desk top review could take place in conjunction with the Strategic Director of Corporate Services, the Chief Executive and others in order to highlight any areas of concern, in advance of biennial reviews.
- iv. Reference was made to the number of changes and requirements applied to the auditing process over recent years. This had made summarising the programme of work more complicated than previously. This should now become easier and a summary of future reports would be produced, along with time lines.
- v. The External Auditors would be regularly assessed by a number of professional bodies. The Audit Inspection Unit (AIU) conducted assessments on a cycle, spending a substantial amount of time conducting reviews. Recent review results had yet to be presented, previous reviews had not identified any themes for improvement.

RESOLVED - that the recommendations with regard to the effectiveness of the External Auditors Grant Thornton be noted and agreed.

AC

104.4/11

GRANT THORNTON – 2011/12 ANNUAL FEE LETTER

The Committee considered a report of the Strategic Director (Corporate Services) (agenda item 12) noting and commenting as appropriate, on Grant Thornton's Audit Fee Letter for 2011-12.

The GT Representative referred to the Audit Commission website which published the expected scale fee for each local Government organisation. In its communication to audited bodies on the 25th February 2011, the Audit Commission indicated that additional rebates would be made in 2011-12, leading to a further fee reduction compared to 2010-11. The rebate amount would be based on the Commission's reserves available at the end of 2011-12. The GT Representative confirmed that should the Audit Commission become privatised they would be the 5th largest UK auditing body. Details on how the Commission could become a Mutual were not yet known. No Government Bill on the abolition of the Audit Commission had yet been completed and the timescales required indicated it could be 2012-13 before the Bill would be implemented.

The Committee discussed the letter and the following comments were made;

- i. Members discussed the implications of the Audit Commission privatisation and the affect of this on other accountancy firms. Councillor Gollop highlighted that although Grant Thornton were significantly smaller than the four largest accountancy firms they provided a flexible and consistent service, and the Council should carefully consider the implications prior to any change in external auditor appointment.
- ii. Councillor Emmet reiterated the concern and suggested that the level of commitment from an accountancy firm should be a contributing factor, this would be gauged from information related to the level of staffing, costs charged etc. Service levels would vary between different audit organisations.
- iii. The GT Representative referred to the need for an informed decision when procuring services, the Council contract would be large and span a number of years. There could be a risk that smaller districts could would be affected by the higher prices charged by accountancy firms with no local presence.

RESOLVED -

- (i) that the report be noted

AC

**105.4/11 PROGRESS REPORT ON IMPLEMENTATION OF GRANT
THORNTON RECOMMENDATIONS**

The Committee considered a report of the Strategic Director (Corporate Services) (agenda item no. 14) noting and commenting as appropriate on management's progress with implementation of Grant Thornton's high priority recommendations.

The Chief Internal Auditor introduced the report and invited questions and comments;

i. The Chair expressed concern that Internal Audit resources are not currently sufficient to enable a full and independent follow up of recommendations. The Chief Internal Auditor highlighted the need for responsible officers to ensure recommendations are implemented. Further information on specific areas of concern could be provided on an ad-hoc basis. The GT Representative confirmed areas of failed risk assessment should have follow up responses.

ii. Independent Member Ken Guy referred to the need for strong management accountability and Members agreed that poor performance should be reflected in the PMDS.

iii. The Chief Internal Auditor addressed the Committee concerns regarding the time scales involved in implementing recommendations. Large pieces of work, e.g. Business transformation etc required time to implement complex changes.

iv. It was agreed that future update reports would state if/when the original recommendation had been implemented and as well as information on any additional work required as a consequence of this. It was recognised that high risk areas should be addressed promptly; when larger transitions are taking place interim arrangements should be implemented. When areas had not been progressed Managers would be asked to attend the Audit Committee to provide an explanation.

RESOLVED -

- (1) that the Audit Committee note the report;**
- (2) that interim arrangements should be implemented in high risk areas to ensure prompt responses to**

recommendations. Relevant Officer would be required to provide explanations if this were not to take place;

- (3) that future managements progress reports provide detail related to the initial recommendation as well as any additional work required as a consequence of this.**

AC

106.4/11 AUDIT COMMITTEE TRAINING PROVISION

The Committee considered a report of the Strategic Director, Corporate Services (agenda item no. 15) noting the outcomes of the skills assessment, identifying any other needs and agreeing the provisional training programme.

The Chief Internal Auditor presented the report and the Committee made the following comments;

- i. It was agreed that all training should be made available to the Independent Members who would be included on the mailing list. The Councillor Development Officer would be informed of this request.
- ii. All Member training would be available in evening sessions to accommodate Councillors with employment. The training on the Annual Accounts would be available to all Councillors, which included the Executive Member for Efficiency and Value for Money, Scrutiny Chairs etc. The Committee discussed the need for consistency in approach; a 1/3 Councillor election system allowed a higher level of continuity.
- iii. In addition to the training on the Annual Accounts the GT representative referred to two publications that the Committee members might find informative; The audit Commission's "The Final Countdown: IFRS in Local Government" and the Chartered Institute of Public Finance and Accounting (CIFPA) document – "IFRS: How to tell the story". These would be circulated to the Audit Committee members by the Chief Internal Auditor.

- RESOLVED -**
- (1) that the report be noted;**
 - (2) that Councillors training be made available to the Audit Committee Independent Members, who would also be added to the member development mailing list.**

AC

107.4/11

DRAFT AUDIT COMMITTEE ANNUAL REPORT TO COUNCIL

The Committee considered a report of the Strategic Director (Corporate Services) (agenda item no. 16) providing a suggested form and content for the Committee's Annual Report.

The Chair presented the draft report setting 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 Members discussed the report and made the following comments;

- i. The report should include reference to the Bishop Road School Report due to controversial nature of the issue.
- ii. The report should reflect that although it had been proposed that the Standards Board for England should be abolished as a result of the Localism Bill, it would be a local decision to continue a Standards Committee for the City Council (paragraph 9.12 of the report).
- iii. The Committee requested that the report should also include reference to the Gateway Reviews, the consultation on the proposed changes in the External Audit arrangements and the report on the Effectiveness of the External Auditor.
- iv. An updated, draft version of the report would be brought to the first June meeting of the Committee, provided the time scale for the June Council Meeting date allowed, otherwise it would be circulated to members for comment, prior to presentation at Full Council.

The Chair thanked the Committee Members, the Independent Members, the External Auditors and officers for their participation in the Audit Committee over the municipal year. Tribute was paid

to Councillor Gollop for his invaluable contribution since the formation of the Audit Committee.

Councillor Gollop thanked the Chair and made reference to the Audit Committee as a really good example of how all political parties could work together, without political animosity.

- RESOLVED - (1) that the Draft Report be noted;**
- (2) that an updated final Draft Audit Committee Annual Report be circulated to Members for comment, prior to presentation at Full Council.**

INFORMATION REPORTS

AC

108.4/11 SCHEDULE OF FINANCIAL REPORTING DATES

The Committee considered a report of the Service Director, Finance (agenda item no. 17) noting the schedule of dates for budget monitoring reports in the financial year 2010/11.

- RESOLVED - that the report be noted.**

AC

109.4/11 DATE OF NEXT MEETING

- RESOLVED - that the next meeting of the Audit Committee be held at 9.30am on Friday, 13th May 2011.**

(The meeting ended at 12.55pm)

CHAIR