

**BRISTOL CITY COUNCIL
MINUTES OF THE ANNUAL MEETING OF
THE AUDIT COMMITTEE
HELD ON 24TH JUNE 2011 AT 9.30AM**

P Councillor Sean Emmett
P Councillor Patrick Hassell
A Councillor John Kiely
P Councillor Mark Brain
P Councillor Barry Clark
P Councillor Mark Weston
A Ken Guy – Independent Member
P Brenda McLennan – Independent Member

AC

1.6/11

ELECTION OF CHAIR

**RESOLVED - that Councillor Weston be elected
Chair of the Audit Committee for the
2011/12 municipal year.**

AC

2.6/11

ELECTION OF VICE-CHAIR

**RESOLVED - that Councillor Brain be elected
Vice-Chair of the Audit Committee
for the 2011/12 municipal year.**

AC

3.6/11

MEMBERSHIP OF THE COMMITTEE

**RESOLVED - that the following membership for
the 2011/12 municipal year be
noted:-**

**Councillor Sean Emmett
Councillor Patrick Hassell
Councillor John Kiely
Councillor Mark Brain
Councillor Barry Clark
Councillor Mark Weston**

**Independent Members – Ken Guy
Brenda McLennan**

AC

4.6/11 APOLOGIES FOR ABSENCE, SUBSTITUTIONS AND INTRODUCTIONS

Apologies were received from Councillor Kiely, Independent Member Ken Guy and John Golding, Grant Thornton.

AC

5.6/11 TERMS OF REFERENCE

RESOLVED - that the terms of reference agreed by Annual Council on 17th May 2011 be noted.

AC

6.6/11 DATES AND TIMES OF MEETINGS 2011/12

On behalf of Councillor Kiely, Councillor Emmett requested that future meetings start at 2.00 pm. The Committee discussed this request and it was suggested that the July meeting would start at 9.30am and all future meetings would start at 2.00pm. The Democratic Services Officer would circulate the dates for confirmation.

RESOLVED - that meetings of the Audit Committee for the 2011/12 municipal year be held on the following dates-

**24th June 2011 – 9. 30am
8th July 2011 – 9.30am
30th September 2011 – 2.00 pm
11th November 2011 – 2.00 pm
20th January 2012 – 2.00 pm
30th March 2012 * - 10.00 am
20th April 2012 – 2.00 pm**

(*Joint meeting with Standards Committee)

AC

7.6/11 DECLARATIONS OF INTEREST

Councillor Emmett confirmed his position as an Executive Assistant who would have access to the reports presented to

Executive Members. Voting abstentions would take place when considered necessary.

AC
8.6/11

MINUTES OF THE JOINT MEETING OF AUDIT COMMITTEE AND STANDARDS COMMITTEE– 1st APRIL 2011

RESOLVED - that the Minutes of the joint meeting of the Audit and Standards Committees held on 1st April 2011 be confirmed as a correct record and signed by the Chair.

AC
9.6/11

MINUTES OF THE AUDIT COMMITTEE – 8th APRIL 2010

Councillor Hassell referred to errors previously highlighted via email – changes had been incorporated in minutes to be signed.

RESOLVED - that the Minutes of the meeting of the Audit Committee held on 8th April 2011 be confirmed as a correct record and signed by the Chair.

AC
10.6/11

PUBLIC FORUM

None.

AC
11.6/11

ACTION SHEET

Dick Powell, the Chief Internal Auditor (CIA) presented the action sheet, highlighting the salient points;

a. Minute 92.4/10 – Outcomes from a recent fraud case
The pension recovery payment expected had not materialised, this had been escalated with the Pension Authority.

b. Minute 40.9/10 – Grant Thornton Governance Report on the Audit of the Accounts 2009/10
It was agreed that the Member training on the International Financial Reporting Standard (IFRS) would take place at 6. 00

pm on the 19th September 2011. Councillor Brain would liaise with the Corporate Finance Manager (CFM) to arrange an individual briefing.

c. Minute 91.2/11 – Additional funding to Bishop Road School

- In order to complete a thorough investigation the planned meeting on the 13th May 2011 had been postponed to allow more time for Internal Audit to carry out further investigations. New evidence had come to light, which had been discussed with Legal Services, and a postponement considered appropriate. A Freedom of Information (FOI) Act request had been received in respect of the investigation. All interested parties had been kept updated on meeting postponements.
- Councillors referred to concerns received from members of the public regarding the time taken to conduct the investigation and possible negative public perception.
- The Members acknowledged the need for a thorough investigation and agreed proceedings should not be rushed. The Committee requested a further update at the 8th July 2011 meeting. A date would be agreed for an additional meeting to review the Audit report.

RESOLVED - (1) that the action sheet for the 8th April 2011 be noted;

(2) that a verbal update on the progress of the Internal Audit investigation into Additional Funding for Bishop Road School be given to the the Audit Committee on the 8th July 2011.

AC

12.6/11

ANNUAL WORK PROGRAMME

The Committee considered a report of the Strategic Director Corporate Services (agenda item no.11) inviting members to agree the draft work programme for 2011/12.

The CIA referred to the Work Programme as a dynamic document, which would be updated through the year. The

following points were highlighted;

- a. Submission of Grant Thornton's report on Business Transformation was dependent on agreement with Council officers ;
- b. As requested by the Committee, an update on Gateway Reviews would be presented to the Committee in either September or November 2011;
- c. Due to the improvements in the Health and Social Care Risk Register, the Registers to be presented to the Committee in September would now be CYPS and Neighbourhoods.

RESOLVED - that subject to the comments outlined above the draft work programme for 2011/12 be agreed.

AC

13.6/11

ANNUAL GOVERNANCE STATEMENT

The Committee considered a report of the Strategic Director, Corporate Services (agenda item no. 12) requesting approval of the Annual Governance Statement (AGS).

The CIA presented the report and the following comments were made;

- i. Councillor Emmett referred to the presentation of the Medium Term Financial Plan (MTFP) at Full Council and the associated problems related to the lack of certainty over central Government funding. Additionally, a Select Committee looking at communication may result in the demise of the 'Our City' publication, therefore references to 'Our City' would need to be removed in due course.
- ii. The CIA confirmed that the Strategic Leadership Team (SLT) receive the Corporate Risk Register every six months and forms part of Cabinet briefings each quarter.
- iii. The Committee discussed Business Transformation and the need to ensure the programme had been connected to the MTFP and produced savings. The rationale for spending money in order to save money in the future would need to be clearly demonstrated as well as ensuring the Bristol City Council (BCC) Officers have the capacity to successfully deliver the programme.

iv. The Chief Internal Auditor confirmed that Grant Thornton (GT), external auditors would be assessing Business Transformation and required reassurances related to benefits realisation. An update has been scheduled for the September meeting.

v. Councillor Brain suggested that the Annual Governance Statement (3.1) should refer to the MTFP as a living document that would be updated as required.

vi. Independent Member, Brenda McLennan highlighted three topics not currently included in the AGS;

- Environmental Issues – i.e. sustainability.
The CIA confirmed that the area had not been highlighted in the review process as a significant control/governance issue of sufficient concern to merit inclusion in the AGS, but it was in the Corporate Risk Register (CRR).
- Internal Culture
- Partnerships – i.e. Bristol Partnership.
The CIA referred to the introduction of the Local Enterprise Partnership (LEP), affecting the partnership situation, and the topic was also included in the CRR, which the Audit Committee would assess twice a year.

It was agreed the three issues highlighted should be considered as part of the AGS for 2011/12 if necessary.

RESOLVED - (1) That the AGS 2011/12 process should give consideration to Environmental Issues, the Culture of Bristol City Council and Partnerships;

(2) that the AGS for 2010/11 be approved.

The Committee considered a report of the Service Director (Finance) (agenda item no. 13) requesting comments on the draft Statement of Accounts for the year ended 31 March 2011, as appropriate.

The Service Manager, Corporate Finance presented the report. An updated Statement of Accounts had been tabled at the meeting. The Accounts were the first prepared in line with IFRS requirements. The transitional and re-statement work had been reviewed by the external auditor who had indicated that the Council's approach was in accordance with the Code of Practice. The revenue outturn position, following closure of directorate accounts, had been presented to the Cabinet on 23rd June 2011, however the comparison with these figures to the Statement of Accounts was not straightforward due to the adjustments required under the Code of Practice and IFRS itself. The Accounts would now be subject to audit and the Committee would be asked to approve the accounts at the September meeting when it would also receive the auditor's report.

The following comments were made;

- i. The Committee agreed that the lay out and presentation of the report was difficult and hard to navigate, i.e. explanation notes were hard to locate. The Service Manager, Corporate Finance (SMCF) acknowledged the concerns, but pointed out that the current format followed the IFRS guidelines.
- ii. The SMCF confirmed that more details of the "Unusable reserves" as mentioned in the Movement in Reserves Statement (page 77 of the agenda) could be found later in the report (page 118) and advised that these reserves were not cash reserves, ie they represented reserves which could not actually be spent. It was suggested that the explanation should be more clearly linked to ensure clear context.
- iii. Referring to the Balance Sheet (page 79) the SMCF confirmed that the method for valuing housing stock had been consistent to previous years, as specified in the Code of Practice. The reason for the significant reduction in the value of fixed assets was largely due to a change in the factor used in the valuation method for council dwellings. This factor was set out in guidance issued by DCLG. This issue was detailed within the notes to the Accounts.

iv. The Committee discussed the deficit on the Collection Fund in 2010/11, the main reason being the increased exemptions and discounts that occurred after the council tax base for 2010/11 had been set. Reference was made to the level of single person discount, student exemption and the abuse of Council tenancies. The Chief Internal Auditor referred to the financial mapping process - identifying fraudulent claims using the financial footprints of an address. The process had taken place through the Council Tax department and some concerns related to the company used had been identified. Councillor Emmett referred to an unresolved concern from a constituent, details would be emailed to the Chief Internal Auditor and the Strategic Director, Corporate Services. The Audit Committee Chair requested inclusion in the response received.

v. The SMCF confirmed that the reduction in the Pension liabilities in the Balance Sheet – total position, page 69, was largely due to the decision of the Government to change the basis for annual indexation of pensions from the RPI to the CPI. This had the effect of reducing the estimated liability for future pension payments. Again, this reference to this was made in the notes within the Statement of Accounts.

vi. In reference to the varying level of Pension Liability (page 69) the SMCF was unable to provide an explanation of all variances without going back over the previous financial years records. Reference was made to recent changes in the Local Government Scheme, officers on a higher salary were required to contribute more.

vii. a. Cllr Emmett referred to the chart showing Revenue Outturn compared to budget and forecast (page 66) and the £3.1 million underspend identified. The percentage of council tax collected was 96.34%, just below the target of 96.5%, further monitoring would be important.

b. The SMCF highlighted that, although he understood that some local authorities took account of likely slippage when setting their capital programmes, he believed that this would not necessarily benefit Bristol in terms of reducing the amount and therefore the cost of borrowing for capital purposes. He also advised that the slippage last year had been unusually high, but this did not mean that the expenditure wouldn't take place, just that it would occur in the

following financial year.

c. Independent Member, Brenda McLennan highlighted concerns with the large revenue underspend and the possible affect of this on the service provided. The SMCF pointed out that half of the underspend did not come from directorates and reasons for the underspend had been included in the report presented to the Cabinet on the 23rd June 2011 (Finance & Performance Outturn 2010-11), this would be circulated to the Audit Committee.

viii. The SMCF confirmed that the introduction of IFRS had required substantial restatement of prior year figures. Normally these would have been highlighted in the foreword, but because of the scale of the changes, there was a separate, detailed note covering this within the Statement of Accounts.

ix. With reference to the accrual for annual leave, the SMCF confirmed that a major element of the accrual related to teachers and this had been calculated using the formula recommended by CIPFA. For other employees, a survey was undertaken using a sample size agreed with the external auditors. It was noted that bench marking of the results could be carried out with other local authorities. All employees have different terms and conditions, making the process difficult.

x. Cllr Emmett referred to the changes in the way schools operate with the introduction of Academies and Free Schools etc. It would be important that the transfer of balances and assets took place in a consistent and monitored way due to the scale of the projects. The Committee agreed that the Resources Scrutiny Committee (RSC) should review this and any related minutes would be circulated to the Audit Committee Members.

xi. In reference to the Bristol Port Company, the SMCF confirmed that BCC have retained £2.5 million worth of shares and redeemed their £8.5 million preference shareholding. The Committee requested information indicating the difference between the cost included in the accounts and the mid-range valuation of the shares.

The Committee thanked the SMCF for the good work on the Statement and for presenting the report in the absence of the Service Director, Finance. Members were invited to email the

SMCF directly with any further comments. It was noted that comments could also be made as part of the training session on the 19th September. The Statement of Accounts would be presented to the Audit Committee for approval on the 30th September 2011.

- RESOLVED -**
- (1) that a response be provided to Cllr Emmett and Cllr Weston related to concerns about the company used in the financial mapping exercise;**
 - (2) that the Audit Committee receive the Finance and Performance Outturn 2010-11 report presented to the Cabinet on the 23rd June 2011;**
 - (3) that the Resources Scrutiny Committee (RSC) be asked to monitor the Dedicated School Grant (DSG) payments and for related RSC minutes should be shared with the Audit Committee;**
 - (4) that the Audit Committee be advised of the difference between the cost and the mid-range value of the shares in the Port Company;**
 - (5) that the Statement of Accounts for 2010-11 be noted.**

AC

15.6/11

FUTURE OF LOCAL PUBLIC AUDIT

The Committee considered a report of the Strategic Director, Corporate Services (agenda item no. 14) requesting comments and an agreed response to the consultation document.

The following comments were received;

- i. The Committee highlighted that the Audit Committee could not answer many of the questions posed in the report,

making the consultation exercise challenging.

ii. The Members recognised that it would be challenging for an Independent Member to Chair the Audit Committee, the role would need to expand and access to information would need to be improved. Independent Members would require access to the Councils internal web pages and other pertinent information. The CIA highlighted that the IT department had previously not looked favourably on increased access for independent Members but he would discuss this further.

iii. Independent Member, Brenda McLennan expressed concern with the level of commitment required from an independent Member to Chair an Audit Committee. There would also be remuneration changes required, concerns over recruitment were also highlighted. Ms McLennan referred to the view of Independent Member, Ken Guy who supported an Independent Member Chair.

iii. Cllr Emmett highlighted that the Audit Committee proportionality reflected that of the Council but under new proposals the majority party would be unable to have the majority of seats on the Committee. An Independent Chair would need to have a wider interest in the Council but could provide an input in to the AGS that Councillors have been unable to.

iv. The CIA confirmed that option 3 of the proposed options for the constitution of the Audit Committee would be the most comparable to the current Audit Committee structure.

v. The Committee discussed the appointment of the external auditor and the options available. The Grant Thornton Representative confirmed that to safeguard independence, their Audit Mangers would be periodically changed. The proposal was that the external auditors have to be appointed for a five year term, but would be re-appointed annually too allow a change should a poor service be provided. Any audit appointment would be subject to European Union procurement regulations and would be incur expense.

It was confirmed that the Audit Commission had appointed Grant Thornton as the Council's external auditors. It was anticipated that following the appointment would continue until such time as the new arrangements arising from the

consultation came into force.

vi. The Committee requested an explanation related to the Scope of Audit and the work of the Auditors, which stated;

Public Interest Disclosure (paragraphs 4.43 to 4.47)

“Public Interest – Do you agree it would be sensible for the auditor and the Audit Committee to be designated prescribed persons in the Public Interest Disclosure Act? If not, who do you think would be best placed to undertake this role?”.

The GT representative suggested this referred to the whistle blowing arrangement related to Auditors. The Legal Department would be asked to provide a further explanation.

vii. The Committee requested that the Chief Internal Auditor draft a response to the consultation document highlighting a preference for Option 3 of the proposals for the scope of the work of the external auditor, with the inclusion of 4.24 from Option 4. Members felt it would be an advantage to receive the annual report in an accessible way and increase the transparency of the local public bodies. A draft letter would be circulated to the Chair and Vice Chair of the Audit Committee the Liberal Democrat Lead Member, Councillor Emmet and the Independent Members.

viii. The Vice Chair of the Audit Committee, Cllr Brain would be attending the Core Cities Meeting on the 25th July 2011. Any further unresolved queries could be added to the agenda of this meeting.

- RESOLVED -**
- (1) that Information Technology be asked to provide access for Independent Members to the City Council’s internal web pages (i.e. the Source);**
 - (2) that Legal Services provide an explanation on the following, extracted from Appendix B from the Future of Local Public Audit – consultation report;**

Public Interest Disclosure (paragraphs 4.43 to 4.47)

“Public Interest – Do you agree it would be sensible for

the auditor and the Audit Committee to be designated prescribed persons in the Public Interest Disclosure Act? If not, who do you think would be best placed to undertake this role?"

- (3) that a response to the consultation should be drafted which supported Option 3 of the report and also include Part 4.24 from Option 4. The draft letter should be circulated to the Chair, Vice Chair, the Liberal Democrat Lead Member and the Independent Members of the Audit Committee, prior to submission;**
- (4) that the report be noted.**

AC

16.6/11

DATE OF NEXT MEETING

RESOLVED - that the next meeting of the Audit Committee be held on Friday 8th July 2011 at 9.30am.

(The meeting ended at 11.45 am)

CHAIR