

**BRISTOL CITY COUNCIL
MINUTES OF THE MEETING OF
THE AUDIT COMMITTEE
HELD ON 8TH JULY 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
17.7/11 APOLOGIES FOR ABSENCE, SUBSTITUTIONS AND
INTRODUCTIONS**

Apologies were received from Councillor Kiely and Independent Member, Ken Guy and Peter Robinson, Service Director, Finance.

**AC
18.7/11 PUBLIC FORUM**

None.

**AC
19.7/11 DECLARATIONS OF INTEREST**

None.

**AC
20.7/11 MINUTES OF THE AUDIT COMMITTEE – 24TH JUNE 2011**

RESOLVED - that the Minutes of the meeting of the Audit Committee held on 24th June 2011 be confirmed as a correct record and signed by the Chair.

AC

21.7/11

WHIPPING

None.

AC

22.7/11

CHAIR'S BUSINESS

- i. The Chair thanked the Chief Internal Auditor (CIA) for drafting and sending the Audit Commission consultation response letter. The Future of the Local Public Audit had been added to the agenda for the forthcoming Core Cities meeting; Councillor Brain would be attending with the CIA on behalf of Bristol City Council (BCC). The Committee agreed to support the re-election of Cllr Radcliffe, Birmingham Council, as Chair of the Core Cities Committee.
- ii. The Members requested that the Work Programme be included with the agenda for all future meetings.
- iii. The Chair referred to agenda item no. 17 – *Better Governance Forum Paper on Strategic Risk Management and Governance Risk*, and recommended that all Members read the guidance.
- iv. Following an inquiry related to risk register reporting the CIA confirmed that the appropriate Executive Member would be updated on a quarterly basis and updates taken to Scrutiny Commissions if deemed necessary. Risk registers had been loaded on to SPARnet, the software used for Performance Indicator (PI) reporting could also be allocated on a portfolio basis, in addition to a Directorate basis. The Committee requested that the CIA provide further information on risk register reporting procedures, to ensure clarity.
- v. Councillor Brain resigned as the Audit Committee Vice-Chair and Members unanimously agreed that Independent Member, Brenda McLennan, would take the position of Vice Chair. This reflected the Committee's commitment to independent members' inclusion in the proceedings of the Committee.

RESOLVED - that Independent Member, Brenda McLennan be elected Vice-Chair of the Audit Committee for the 2011/12

GRANT THORNTON – AUDIT PLAN PROGRESS REPORT

The Committee considered a report of the Strategic Director Corporate Services (agenda item no.7) relating to the Progress Report on Grant Thornton's audit for the year ended 31 March 2011. It summarised the audit work in accordance with the agreed strategy set out in the Audit Plan.

The Grant Thornton Representative, John Golding presented the report, highlighting the following salient areas;

- i. In reference to Table 2, Revision to Value for Money (VFM) work from 2010 fee letter, it was noted that Total Place was no longer a priority for the Council or a risk that could impact on the VFM conclusion; no work would be undertaken.
- ii. Table 3 summarised the Progress of work against the revised plan and a high level report would be presented to the Bristol City Council (BCC) Chief Executive and the Strategic Director, Corporate Services.
- iii. In respect of Business Transformation, the proposed Core Cities comparison exercise would require the agreement of a protocol for the exchange of information which would take time to finalise. Counterpart External Auditors would be contacted and the scope of the exercise agreed. Permission would be required from the relevant Councils and it could not be guaranteed that the information would be received in time for the proposed report to the next Audit Committee meeting in September. No similar request for information sharing had yet been received, although this could be expected.
- iv. The GT representative agreed with the CIA that a reconvened External Auditors Networking Group might be beneficial. It was acknowledged that collaboration provided a better service for the public and clients. However in the light of the proposals for future public audit, this could become increasingly difficult and the process would not be undertaken in the commercial world.
- v. Cllr Hassell highlighted concerns related to the demise of the National Performance Indicators (NPI) and the possible difficulties with future benchmarking against other LAs. The

Grant Thornton Representative suggested that the number of indicators had previously been too high – 198 in total. The fundamental starting points would remain and NIs would not disappear completely. It was acknowledged that the specification between LAs would change; making benchmarking difficult. The Committee Members agreed it would be beneficial to highlight concerns and suggested a negotiation exercise with other LAs. The CIA would liaise with the Performance and Information Team and the Chair would discuss with the Leader so this could be raised at a higher level.

vi. The Grant Thornton Representative confirmed that previous recommendations would be assessed as part of the work programme and the VFM follow up would be included in a separate report.

RESOLVED - (1) that the report be noted;

(2) that the Audit Committee request that Bristol City Council negotiate with other Local Authorities to establish common Performance Indicators, allowing future benchmarking.

AC

24.7/11

GRANT THORNTON – INTERIM AUDIT REPORT

The Committee considered a report of the Strategic Director, Corporate Services (agenda item no. 8) that summarised the work completed at their interim audit visits in accordance with the agreed strategy set out in the Audit Plan presented to the Audit Committee in January 2011.

The Grant Thornton Representative made reference to the Executive Summary showing the work performed and the key findings to date. An overview of the Audit Strategy was provided which detailed the Planning, Control evaluation, Substantive procedures and Completion stages.

The report made six recommendations and the following observations were made;

Recommendation 1 **Internal Audit**

Internal Audit Staff should ensure that the opinion given in the report is consistent with the rating calculated. They should flow naturally from the findings of each review.

- The CIA confirmed that this had been an isolated error.

Recommendation 2

Internal Audit

A rotation policy for internal auditors should be implemented to avoid predictability and familiarity risk and to document and clarify the Councils policy.

- The CIA confirmed that he agreed with the principle of the recommendation but suggested a more flexible approach could be more appropriate;
- A number of the assignments would be complex in terms of legislation and systems (e.g. housing benefits), and extensive knowledge and experience of the subject would be essential if Audit were to effectively contribute to the governance and control of the subject matter;
- It was agreed that progression in to different Audit areas would be discussed as part of the Performance Management and Development Scheme (PMDS) process. The CIA would discuss with Grant Thornton and document an agreed basis for an approach to rotation for the future.

Recommendation 3

Internal Audit

Departments should ensure that all recommendations raised by Internal Audit are actioned in an agreed timescale or explanations obtained and agreed where no action is taken.

- This related to previous Payroll Section recommendations that had not been implemented. The CIA highlighted that some of the focus of the Section had been on the implementation of a new system;
- The Committee agreed that the lack of change following the recommendations should be escalated in the normal way, and in addition the general principle this would be highlighted to the Senior Leadership Team (SLT).

Recommendation 4

Property, Plant and Equipment (PPE)

A communications policy for PPE should be established to ensure impairments identified at directorate level, that will result in a material impact and require an adjustment in the fixed asset register are notified to the Corporate Property team in a timely manner.

- Cllr Emmet referred to forthcoming changes in the school systems following the introduction of Academies and Free Schools. Clarification related to fixed assets would be required to ensue a smooth transition.

Recommendation 5

Operating Expenditure

Officers should sign all reconciliations when they have reviewed them to document that the control is being performed.

- This had already been implemented.

Recommendation 6

Information Technology

The Council should implement an intrusion detection or prevention system.

- The Grant Thornton Representative reiterated that the risk would increase in the area of IT. Reference was made to the increased numbers of staff leaving employment and the increased risk this could pose if they were disaffected.
- The CIA highlighted that three Group Auditors were IT specific and it would not be appropriate to rotate them in to different areas of Audit.
- Some penetration testing of the IT systems had taken place, the results and action taken in response were being monitored.
- The Committee asked for an results update report.

Other comments received;

- i. The Grant Thornton Representative confirmed that Accounting for Private Finance Initiatives (PFI) should be included on the balance sheet. Many contractors have been reluctant to share their lifecycle costs but it would be considered important.
- ii. An update on the Valuation of Bristol Port Company would be

provided to the September meeting. Other Local Authorities have major trading investments – airports etc. When describing the accounts of the Port the language should not mislead the reader and guidance would be required.

- RESOLVED -**
- (1) the report be noted**
 - (2) that upon completion of the overall review of the information security risk, a report be presented to the Audit Committee.**

The Committee agreed to alter the order of the agenda to allow Cllr Emmett to comment on the Internal Audit Annual Report.

THE MEETING THEN WENT INTO EXEMPT SESSION FOR THE FOLLOWING ITEM

AC

25.7/11 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

26.7/11 INTERNAL AUDIT – ANNUAL REPORT 2010-11

The Committee considered an exempt report of the Strategic Director: Corporate Services (agenda item 13) requesting comments on the Internal Audit Annual Report for 2010-11.

The CIA highlighted that the report would also be presented to the Leader. The Committee were invited to ask questions and the following comments were made:

- i. Councillor Emmet referred to a concern highlighted at the previous Audit Committee meeting related to the techniques employed by the external company who completed the Single Person Discount financial “footprint” exercise. Correspondence issues had been upsetting to some residents and greater sensitivity would be required in future.
- ii. The CIA confirmed that Data Protection legislation did not allow BCC to tell the Council Tax payer the inconsistencies that the financial “footprint” exercise had highlighted, making the process more complex. It was acknowledged that good communication would be required.
- iii. Referring to the risk level of the Housing Benefit subsidy arrangements the CIA referred to a change in the management arrangements, and the Housing Benefit service would now come under Integrated Customer Services with a new Manager. The service would eventually move from Local Authority control in 2016/17.
- iv. The Committee discussed the ongoing reduction in budgets across the Council, which included the Internal Audit budget. Members agreed that levels of resources would need to be considered against the levels of risks imposed. The volume of internal audit provision would be declining whilst in times of significant change, there would be inevitably more strain on the internal controls.
- v. The CIA referred to the acceptance that risk levels would increase with reduced budgets. It would be important to judge priorities correctly and look at different ways of working.
- vi. Independent Member, Brenda McLennan requested clarification on a number of issues and the CIA confirmed the following;
 - The Fraud Bulletin referred to under Anti-Fraud Culture/Awareness Raising section of the report would normally be released twice a year.
 - The IT Security test take up had increased since the last update report but had not achieved 100%. The Corporate Services Directorate had shown a high take up rate.
 - Employees would not be allowed to resign if there was firm evidence that illegal activity had taken place.
- vii. The CIA summarised the Other Audit Activity completed,

this included the application for the Bus Service Operating Grant.

- viii. The Chair referred to the need to correctly confirm invoices and referred to an invoice overcharging incident. He agreed to provide further details to the CIA so the issue could be looked at in more detail.

RESOLVED - that the report be noted.

Councillor Emmett left to attend another meeting at 11.25am.

THE MEETING WENT INTO OPEN SESSION FOR THE FOLLOWING REPORTS

AC

27.7/11

BENEFIT FRAUD INVESTIGATION TEAM – ANNUAL REPORT

The Committee considered a report of the Strategic Director, Corporate Services (agenda item no. 9) updating the Committee on the work carried out by the Benefit Fraud Investigations Team during 2010-2011 and to brief the Committee on proposed changes in the way benefit fraud will be investigated in the future under the Government's Fraud and Error Strategy.

The CIA summarised the report and highlighted the following;

- The new Government Fraud and Error Strategy would be implemented over the next four years and would be intended to complement the other work being done in relation to the simplification of the benefit scheme;
- New measure would have far reaching effects for all local authorities and their benefit and fraud staff;
- The universal credit would replace housing and council tax benefit in its current form and would not be administered by local authorities;
- All fraud investigations would be undertaken by the new Single Investigation Service (SIS) likely to be based within the Department of Work and Pensions (DWP) and would be made up of staff from DWP, HM Revenue and Customs (HMRC) and local authorities.

- The performance of the Team and its relationship with the Benefits Service and other stakeholders would be key to minimising the extent of fraud within the benefit system.
- The CIA referred to the planned use of credit reference agencies by the DWP, as part of its Housing Benefit Matching Service (HBMS). It would be impossible to predict the number of matches that would require investigation and therefore the amount of work it created for the Council's Benefit Fraud Team .
- A consistent approach would be required and the Committee noted the concerns related to the requirement of sufficient resources to ensure a considered and proportionate response to potential benefit fraud.
- The Committee requested an update on the results of the credit reference agency matching mapping, which should include a summary of the impact.

RESOLVED - (1) that the Annual Report be accepted;

(2) that the Audit Committee be kept updated on the results of the Department of Work and Pensions matching exercise and the impact of the outcomes.

AC

28.7/11

THE BRIBERY ACT 2010

The Committee considered a report of the Strategic Director, Corporate Services (agenda item no. 10) requesting the Committee note the report and acknowledge the new legislation, together with the City Council's response.

The CIA introduced the report and confirmed that it would also be taken to SLT as senior management commitment would be required.

The following comments were received;

- i. The CIA referred to the Whistle blowing Policy – all referrals of a financial nature, reported to Internal Audit would

be investigated and the online fraud training highlights indicators that could identify suspicious behaviour.

ii. Cllr Clark referred to the increased risk associated with lower paid employees. The CIA referred to the possibility that employees would allow inappropriate relations with contractors; i.e. correct procedure not followed. No threats or intimidation to family had been noted.

iii. The Grant Thornton Representative confirmed that the draft Bribery Act had been designed for the commercial sector. Local Authorities would already have more stringent controls in place. Government guidance stated that proportional hospitality would not be included in the Act.

iv. Future Court cases would provide precedent on how the Act would be interpreted and a number of banks had required assurance that BCC would be adhering to the Act.

RESOLVED - (1) that the report be noted; and
(2) that the new legislation be acknowledged, together with the City Council's current response to this.

AC

29.7/11

INTERNAL AUDIT PLAN 2011/12

The Committee considered a report of the Strategic Director; Corporate Services (agenda item no. 11) requesting approval of the Annual Audit Plan coverage.

The CIA introduced the report and the Committee were invited to comment;

i. Cllr Hassell requested further clarification in relation to the table showing the Corporate Impact and the Audit opinion, which determined the overall level or risk. Items listed as *at risk* in the Internal Audit Annual Report had only received a *moderate* risk rating. The CIA would provide a further explanation following the meeting.

ii. The CIA confirmed that business rates would be assessed as part of the Council Tax audit coverage.

iii. The Committee discussed the approach to planned Audits. Areas would be identified through consultation with Strategic and Service Directors. Other priorities would be identified from the risk register and urgent items added when required.

- RESOLVED - (1) that the Annual Audit Plan coverage be approved;**
- (2) that the CIA provide guidance on the Corporate Impact/Audit Opinion level of risk assessment.**

INFORMATION REPORTS

AC

30.7/11 CORPORATE RISK REGISTER

The Committee considered a report of the Chief Internal Auditor (agenda item no. 14) summarising changes to the Corporate Risk Register.

RESOLVED - that the report be noted.

AC

31.7/11 HEALTH AND SOCIAL CARE RISK REGISTER

The Committee considered a report of the Chief Internal Auditor (agenda item no. 15) summarising changes to the Health and Social Care risk register.

RESOLVED - that the report be noted.

AC

32.7/11 STANDARDS COMMITTEE ANNUAL REPORT 2010/11 AND WORK PROGRAMME 2011/12

The Committee received the Standards Committee's Annual Review for February 2010- January 2011 (agenda item no. 16) for information only.

RESOLVED - that the report be noted.

AC.

33.7/11

BETTER GOVERNANCE FORUM PAPER ON STRATEGIC RISK MANAGEMENT AND GOVERNANCE RISKS

The Committee received the CIPFA Better Governance Forum update report (agenda item no.17) for information only.

The Committee highlighted that the report provided a comprehensive guide.

RESOLVED - that the report be noted.

AC

34.7/11

BISHOP ROAD SCHOOL

It was hoped that a report would be brought forward to the Committee in early September, and would necessitate a separate meeting. Further guidance from Legal Service could be required.

AC

35.7/11

DATE OF NEXT MEETING

RESOLVED - that the next meeting of the Audit Committee be held on Friday 30th September 2011 at 2.00 pm.

(The meeting ended at 12.15 pm)

CHAIR