BRISTOL CITY COUNCIL
Audit Committee
19 April 2013

Report of: **Interim City Director**

Report Title: **Audit Committee Draft Annual Report to Council 2012/13**

Ward: Citywide

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RECOMMENDATION

The Committee comment on the form and content of the Audit Committee's draft annual report to Full Council (attached as Appendix 1 to a summary covering report). The report provides for the Committee's assurances to Council at paragraphs:

- 3.1-3.3   regarding risk management
- 3.4-3.6   regarding internal control and the Annual Governance Statement (AGS)
- 3.7-3.11   regarding internal audit
- 3.12-3.16 regarding external audit and governance
- 3.17-3.22 regarding anti-fraud arrangements
- 3.23   regarding corporate issues

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 1 - 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: None necessary

    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 1   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 2012 to date.

AUDIT COMMITTEE

AUDIT COMMITTEE

**ANNUAL REPORT
2012 - 2013**

(June 2013)

AUDIT COMMITTEE ANNUAL REPORT 2012 - 13

Introduction by Chair of Audit Committee

This report provides an overview of the Audit Committee's activity during the municipal year 2012 - 13.

I am pleased to report that the Committee continues to make progress in terms of discharging its responsibilities to provide independent assurance on the adequacy of the Council's risk management framework and the associated control environment, and in providing robust scrutiny and challenge of the Authority's financial performance.

As outlined in the body of this report, the Committee has been actively engaged with the Chief Internal Auditor(s) and with Grant Thornton (external auditors), and I would like to thank all the members who served on the Committee during 2012/13. My thanks also go to the Council officers who have supported the work of the Committee and more specifically to me in my role as Chairman.

In looking forward to 2013 - 14 and beyond, and given the continued financial pressures facing the Council, the importance of an effective Audit Committee remains critical. Along with my fellow members I look forward to meeting those challenges which lay ahead.

Councillor Mark Weston
Chair, Audit Committee

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1   TERMS OF REFERENCE

1.1   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.

1.2   The Committee's Terms of Reference were, for 2012/13, 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 review and consider the effectiveness of the Council's system of internal control and approve the annual governance statement; review and consider the effectiveness of the Council's internal audit, consider and approve the statement of accounts (Accounts and Audit (England) Regulations 2011 S.I. 2011/817).

1.3   Following discontinuation of the former Standards Committee in 2012, the Full Council further delegated to the Committee the function of promoting and maintaining high standards of conduct by members and co-opted members. The Committee was required specifically to advise the Council in respect of:

- the adoption or revision of the Code of Conduct for Members and any associated Codes or Protocols

- training for Members on the Code of Conduct

- considering and determining any allegations of misconduct by a Councillor if the Monitoring Officer requests assistance

In September 2012 the Committee adopted a procedure for dealing with alleged breaches of the Code of Conduct for Members.

2. AUDIT COMMITTEE EFFECTIVENESS AND IMPACT

2.1 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.

2.2 The Audit Committee's activities have been designed to provide assurance to the Council and to make a positive contribution towards improvement of the 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.

2.3 In accordance with the International Standards of Auditing (ISA) 260, the External Auditor, Grant Thornton, presented the Audit Committee with their Annual Report to those charged with Governance for 2011-12. Their report highlights the key issues arising from the audit of the Council's financial statements, and states they were satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and confirmed that they are not aware of any significant risks that are not disclosed within the AGS.

2.4 Supplementary to working closely with the External Auditor in overseeing the Council's financial statements, the Committee has actively participated in the following areas:

- Business Continuity Planning
- Information Security
- Project Gateway Review Process
- The adequacy of the Internal Audit function

2.5 The Committee considered a report in June 2012 from the External Auditors in connection with the contractors selection process for Redcliffe Wharf. The report set out a series of recommendations that would increase transparency in property projects and developer selections in the future, and included reference to a new policy in preparation. The Committee resolved to accept the recommendations. The Committee further resolved to recommend Executive Member involvement in all stages of the Developer selection processes, and received a further report in November 2012 from the Strategic Director Corporate Services setting out a proposed protocol for Executive Member Involvement in Property Projects.

3. ASSURANCES

Risk Management

3.1 The Committee have continued to receive the Corporate and Directorate Risk

Registers as full agenda items throughout the year. The table below details the Risk Registers received and the meeting at which they were reviewed.

Risk Register	Meeting Date
Corporate Risk Register	29th June 2012 & 18th January 2013
Health & Social Care	28th September 2012
Neighbourhoods & City Development	9th November 2012
Children & Young Peoples's Services	9th November 2012
Corporate Services	18th January 2013

3.2   The Committee have continued to seek ways of raising the level of risk awareness throughout the Council. A programme of e-learning began in 2011 with a fraud risk awareness computer based training package being successfully rolled out to targeted management levels across all Directorates. This has been followed up in 2012/13 with a more broadly based risk management course for the same targeted management.

3.3   The Committee received an Annual Report on risk management activity which detailed the results of a peer review with North Somerset Council of the respective risk management arrangements in place. The main findings on the risk management arrangements for Bristol City Council underlined considerable strengths, and also areas for further development which now form part of the 2013/14 Risk Management Work Programme.

Annual Governance Statement (AGS)

3.4   In order to ensure effective internal control systems have been established and are maintained, and as an integral part of the Annual Governance Statement, 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 holding meetings to gain assurance regarding the control framework from all Strategic Directors, the S151 Officer, the Monitoring Officer, and other key officers. All these officers have important responsibilities for ensuring an effective system of governance and internal control is in place.

3.5   The annual review of the AGS is currently in progress, and the Committee is satisfied it is a robust review process.

3.6   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 reviewed by the Audit Committee in June 2012 as part of the AGS compilation and any revisions implemented. A workshop was held in April 2013 with a range of officers to review the Local Code and the AGS content and a revised Local Code will be taken with the AGS for review by the June 2013 Audit Committee.

Internal Audit Assurance

3.7   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.

3.8   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 in June 2012.

- 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 an 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.

3.9   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

3.10   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, as has been identified from Internal Audit's reactive fraud work. However, given the fraud risks identified by the National Fraud Authority (NFA), when allied to the increased propensity for fraud in the current economic climate and the potential impact of the change agenda on the internal control environment, it is essential that the Council's counter-fraud arrangements are kept under constant review and a commensurate level of resource devoted to prevention and detection work.

3.11   In addition the Committee has considered the External Auditor's positive opinion upon the service provided by Internal Audit. Following a review of the Internal Audit function in March 2012 for compliance with the 2006 CIPFA Internal Audit Standards the External Auditor concluded that the Council met these requirements.

External Audit Assurance - Governance and Statement of Accounts

3.12   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.

3.13   Assurance received from the External Auditors, Grant Thornton, for 2012/13, 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, although improvements need to be made to ensure that the objective of the Council's VfM Strategy is achieved, the strategy is a:
   · valuable management tool that demonstrates BCC's corporate commitment to improve VfM.
   · provides a sound base which should enable BCC to deliver and clearly demonstrate VfM.

3.14   Additionally, the Committee has received the auditor's Annual Audit Letter for 2011/12 in November 2012.

3.15   Government proposals for the future of public audit, and the effect upon the Council's choice of external auditors, are yet to be finalised. The current external auditor is contracted for a further 4 years after which the Council will have its own selection process in place. The Committee will continue to receive and address updates on the matter from Internal Audit.

3.16   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

3.17   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 exercises such as the National Fraud Initiative (NFI).

3.18   In April 2012, the National Fraud Authority (NFA) formally released Fighting Fraud Locally - the National Local Government Fraud Strategy and called for Local Authorities to review their ant-fraud arrangements and align them to the best practice included in the national strategy.

3.19   In January 2013 the Committee considered a Fraud Update report, and a Fraud Investigation Protocol, presented by Internal Audit, providing information on the

current developments in respect of fraud against the public sector and how the Council is responding to them. The report included reference to a Fraud Risk Assessment undertaken by Internal Audit, from which, the highest fraud risks are identified as:

- Procurement
- Tenancy
- Local Taxation
- Payroll
- Housing and Council Tax Benefit
- Direct Payments
- Treasury Management (inherently high but residually low risk)

The two highest risk emerging areas identified for early attention are:
- Business rate fraud
- Local council tax support

3.20   The National Fraud Authority (NFA) Annual Fraud Indicator for 2012 identified their estimated annual fraud loss in the UK public sector as £20.3bn. Of this some £2.2bn (excluding benefit fraud) represents fraud against Local Government, and fears are this figure could rise. Following completion of a best practice *Checklist for those responsible for governance,* an action plan has been agreed to address fraud risks to the Council.

3.21   The Committee recognise that the work of Internal Audit on Tenancy Fraud has been praised by the NFA, the Audit Commission and the Chartered Institute of Housing, and as a result the Council secured further funding to carry on the work on Tenancy Fraud in 2011/12, and 2012/13. A further funding bid has been lodged to continue this work beyond 2012/13.

3.22   The Committee has received half yearly and annual reports which documented the good and improved performance by the Housing Benefit Fraud Team. However, a change in subsidy arrangements for fraud overpayments means that any savings achieved directly benefit central government rather than go to the Local Authority where it could further resource fraud investigation. The Audit Committee are currently lobbying the Minister for Welfare Reform to re-visit the financial arrangements for the funding of Local Authority Benefit Fraud Teams. The establishment of a Single Investigation Service under the Department of Work and Pensions will come into effect in 2015, and from that date the investigation of Housing Benefit fraud would no longer be the responsibility of the City Council. However, it is likely that benefit fraud investigations from all Councils will be working to DWP policies and procedures from 2013.

Corporate Issues

3.23   The Committee continues its consideration of matters which have a corporate impact and as such has continued to receive reports on the following areas:

- Information Security
- Business Continuity
- Gateway Review Process

The Committee's involvement and support is continuing to seek improvements in these areas. In a particular case, the Committee is looking to establish the mandatory participation of staff and Councillors in Information Security Training.

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.

4. LOOKING FORWARD

4.1   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 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
  - Gateway Review Process

- risk management - developing the strategy to ensure risk informed management meetings, more closely defined "Target" risk dates by which to measure progress, and effective focus of resources towards those risks which can most realistically be reduced

- overseeing Members Standards

- commissioning governance

- clarifying the role of the Audit Committee re Value for Money

- seeking the reformation of the Core Cities Audit Chairs' Group

- adjudging Internal Audit against the Revised Public Sector Audit Standards

- other issues Members consider merit inclusion

Where information and reports received suggest a lack of response to internal control weakness or poor risk management arrangements, the Committee will seek specific response from the manager(s) involved, and hold officers to account for the lack of action.

5. INDEPENDENCE

5.1   In 2012/13 the Audit Committee's membership was:

- Councillor Weston (Chair)
- Councillor Brain
- Councillor Emmett
- Councillor Kiely
- Councillor Hassell
- Ken Guy - independent member
- Brenda McLennan - independent member (Vice Chair)

5.2 The Chartered Institute of Public Finance (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.

5.3 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 for four-year terms, one of whom is currently serving as Vice Chair
- 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.

6. TRAINING AND DEVELOPMENT

6.1 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.

6. 2 On completion of a skills assessment in 2011/12, Committee members were canvassed on what topics they felt further training was appropriate to assist with their responsibilities. The issues identified were Freedom of Information, Treasury Management (from the Council's perspective), Asset Management (from the Council's perspective) and Project Management (overview of the Council's arrangements). Accordingly a training session was held in June 2012, in which presentations were given on each of these topics.

6.3 An annual session on the Statement of Accounts took place in September 2012, which also incorporated an additional opportunity for Committee members to further develop their understanding of the Treasury Management issues first introduced at the previous training session in June.

6.4 The Council's subscription to CIPFA's Better Governance Forum provides regular briefings for Audit Committees and these are shared with Members.

6.5 The training needs of the Committee members will be subject to on-going assessment, and training provided as required.

7.   CONCLUSION

7.1   The Committee feels it has demonstrated that it has added value to the council's overall governance framework. During 2013/14 it will continue to request officers to attend Committee meetings to aid in its understanding of the services, but mostly to ensure that internal and external recommendations are implemented on a timely basis.