

**BRISTOL CITY COUNCIL**

**Audit Committee**

**24<sup>th</sup> April 2015**

**Report of:** Chief Internal Auditor

**Title:** Audit Committee Draft - Annual Report to Council 2014/15

**Ward:** Citywide

**Officer Presenting Report:** Melanie Henchy-McCarthy, Alison Mullis  
(J/S) Chief Internal Auditor

**Contact Telephone Number:** 0117 92 22063/22448

**RECOMMENDATION**

The Committee comment on the form and content of the Audit Committee's draft annual report to Full Council (attached at Appendix A to a summary covering report). The report details the Committee's assurance to Council at paragraphs:

- 3.1–3.5 regarding risk management
- 3.6–3.10 regarding internal control and the Annual Governance Statement (AGS)
- 3.11-3.14 regarding internal audit
- 3.15-3.19 regarding external audit and governance
- 3.20-3.25 regarding anti-fraud arrangements
- 3.26 regarding Member standard matters
- 3.27 regarding Treasury Management

**Summary**

This report suggests a format for the Audit Committee's Annual Report to Council. It describes the Committee's role, the work programme for this municipal year and furnishes the Committee with a facility to provide key assurances to the Council. It also details the planned development of the Committee to strengthen the level of assurance provided in the future.

**The significant issues in the report are:**

- Appendix A – a draft report of the Committee to Council

**Policy**

1. The Audit Committee's Terms of Reference are determined by Full Council and are

reflected in the Risk Management Strategy and Policy Statement. 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.

## **Consultation**

**2. Internal:** None necessary

**External:** None necessary

## **Other Options Considered**

N/A

## **Risk Assessment**

The assurances provided to the 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 affected by this report

## **Appendices:**

Appendix A Draft Report of the Audit Committee to Council for 2014/15 (Including Full Council covering report)

## **LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985**

### **Background Papers:**

IPF - A Toolkit for Local Authority Audit Committees 2008.  
Audit Committee Reports and Papers from June 2013 to date.  
Annual Audit and Inspection Letter 2014/15  
Annual Report to those charged with Governance 2014/15

**BRISTOL CITY COUNCIL**

**FULL COUNCIL**

**June 2015**

**Report of:** The Audit Committee

**Title:** Audit Committee - Annual Report 2014/15

**Ward:** Citywide

**Officer Presenting Report:** Councillor Mark Brain, Chair of the Audit Committee (2014/15)

**Contact Telephone Number:** 0117 37 73526

**RECOMMENDATION**

That Council accepts the report of the Audit Committee at Appendix A, and notes the assurances provided in the report.

**Summary**

The report sets out the work and performance of the Audit Committee during 2014/15, and the extent to which the Committee's terms of reference have been met.

**The significant issues in the report are:**

- Para 2 the effectiveness and impact of the Audit Committee
- Para 3.1-3.5 the Committee's assurance regarding the management of key risks facing the Council
- Para 3.6-3.10 the Committee's assurance regarding the internal control, risk management and corporate governance arrangements which were considered in preparation of the Council's published Annual Governance Statement
- Para 3.11-3.14 the Committee's assurance on the effectiveness of Internal Audit
- Para 3.15-3.19 a summary of External Audit assurances on the internal control, risk management and governance arrangements
- Para 3.20-3.25 a summary of anti-fraud assurances
- Para 3.26 Members Standards Matters
- Para 3.27 the Committee's assurance on the effectiveness of Treasury Management
- Para 4 the way forward for the Audit Committee in 2014/15.
- Para 5 issues around the independence of the Committee
- Para 6 training and development of Committee Members

## Policy

1. The Audit Committee's Terms of Reference are determined by Full Council and are reflected in the Risk Management Strategy and Policy Statement. 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.

## Consultation

### 2. Internal

Internal Audit  
Audit Committee Members  
S151 Officer

### 3. External

Not Applicable

### 4. Context

- 4.1 The Audit Committee was established by the City Council at its meeting on 16<sup>th</sup> May 2006. Whilst there is no statutory obligation to have such a Committee, they are widely recognised as a core component of effective governance.

### 5. Proposal

- 5.1 The report of the Audit Committee, and the assurance and comments therein, be noted.

## Other Options Considered

N/A

### 6. Risk Assessment

The purpose, strategy and work programme for the Audit Committee mitigates against any failure by the Council to obtain independent assurance in relation to the governance processes underpinning :

- an effective risk management framework and internal control environment
- the effectiveness of financial and non-financial performance (to the extent it affects exposure to risk and poor internal control)
- the Annual Governance Statement, and
- the review and approval of the annual statement of accounts.

In the course of its work the Audit Committee has added value by initiating a planned review and improvement process across particular areas of weakness variously identified in this report. It has effectively strengthened the corporate effort to achieve the Council's objectives and to meet the requirements and standards overseen by the external auditors and other regulatory bodies.

## **Equalities Impact Assessment**

None necessary for this report

## **Environmental Impact Assessment**

None necessary for this report

## **Legal and Resource Implications**

**Legal** - none sought

**Resource** - none affected by this report

## **Appendices:**

Appendix A Audit Committee Annual Report 2014/15

## **LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985**

### **Background Papers:**

IPF - A Toolkit for Local Authority Audit Committees 2008.  
Audit Committee Reports and Papers from June 2008 to date.  
Annual Audit and Inspection Letter 2013/14  
Annual Report to those charged with Governance 2013/14

## AUDIT COMMITTEE



**ANNUAL REPORT  
2014 - 15**

## ***Forward:***

### **Introduction by Chair of Audit Committee**

This report provides an overview of the Audit Committee's activity during the municipal year 2014 - 15.

I am pleased to report that the Committee continues to make progress in its vital work in providing 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. It does this in a non-political way because it is only by being apolitical that the Audit Committee can really be effective.

The importance of governance, risk management and strong controls being embedded in the regular business of the Council must not be underestimated and as such the Audit Committee have provided support for this by focussing on the key areas.

The Committee is pleased to note that work has continued throughout the year to further strengthen the Control, Risk and Governance environment within the Council. It has been particularly encouraged that many of the Annual Governance Statement issues raised in the 2013/14 Statement whilst not having been fully resolved at this time are clearly on their way to full resolution. However, there is still no room for complacency and the Committee would urge the Council to maintain the momentum and continue the improvements in the next financial year.

New to the Audit Committee during this municipal year has been responsibility monitoring Treasury Management. The Committee have undertaken this task with its usual enthusiasm including actively participating in a Treasury Management workshop/training session.

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 those who served on the Committee during 2014/15. Of course my thanks go to my fellow councillors of all parties who sit on the committee and bring a wealth of experience with them but particular thanks go to the two independent members who serve on the committee providing us with their expertise as well as their independent voices. My thanks also go to the Council officers who have supported the work of the Committee and have been especially supportive to me in my role as Chair. Lastly I would like to extend my thanks to the Deputy Mayor, Councillor Geoff Gollop who despite being under no obligation to attend Audit Committee meetings has attended regularly, listening to the views of members and engaging constructively in discussion.

In looking forward to 2015 - 16 and beyond, and given both the continued financial pressures and the internal changes facing the Council, the importance of an effective Audit Committee remains critical in providing independent assurance on the control, risk and governance framework and challenging where this environment is in need of improvement. Along with my fellow members I look forward to meeting those challenges.



*Councillor Mark Brain*  
*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 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
- advice and training for Members on the Code of Conduct
- considering and determining any allegations of misconduct by a Councillor if the Monitoring Officer requests assistance
- considering nominations made by Group Whips for the conferring of the title 'honorary alderman' and 'honorary alderwoman' and making recommendations to Full council thereon
- to monitor the register of Members' interests.

1.4 The Committee's Terms of Reference were, for 2014/15, 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
- In accordance with the Public Sector Internal Audit Standards, the Committee must also have involvement with:
  - the appointment/dismissal of the Chief Internal Auditor
  - monitoring the performance of the Chief Internal Auditor

1.5 The Committee's Terms of Reference also required further amendments in light of it having taken on the responsibility for monitoring Treasury Management which encompasses the following:

- Receiving, reviewing and challenging quarterly and annual reports
- Reviewing, commenting and challenging the Treasury Management Strategy before it is agreed by Full Council.

Please see paragraph 3.27 for further details.

## **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 on 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 internal and external review processes.
- providing support and challenge to Director of Finance in providing sound financial management

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, however in summary the Committee has actively participated in the following areas throughout the year:

- Challenging of officers with regard to the control and governance framework within the Council
- Review and challenge of the Annual Governance Statement and monitoring of the actions taken to address the significant issues identified in that Statement.
- Monitoring the Corporate Risk Register and challenging the improvements therein
- Working closely with the External Auditor in overseeing the Council's financial statements

- Matters concerning Members, including Code of Conduct and disclosures
- The adequacy of the Internal Audit function including resourcing
- Monitoring and challenging Fraud prevention, detection and subsequent investigation, including updates from the Housing Benefit Fraud Investigation Team.
- Receiving an update on the Information Security Strategy
- Receiving and recommending to Council the Treasury Management Strategy and receiving update reports as appropriate.
- Consideration and challenge of the Local Ombudsman's Annual Report.
- Considering a report on the governance arrangements in place at Bristol 2015.

- 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 2013-14. Their report highlights the key issues arising from the audit of the Council's financial statements, and states they have nothing to report in terms of the annual governance statement not complying with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.
- 2.4 As detailed in the Forward to this report, the Committee has maintained a varied and yet targeted work programme over the past year in that it has challenged areas where concerns have been raised whilst maintaining an understanding of the overall control, risk and governance environment within the Council, as such it has met its terms of reference requirements.
- 2.5 The Committee has been assessed against the Chartered Institute of Public Finance and Accountancy (CIPFA) Guidance on Audit Committees' 'Good Practice' checklist to ensure it operates in line with generally accepted practices. The results of the self-assessment have been used to inform the Committee's work programme going forward and identify areas where there is a training need. A copy of the checklist is attached to this report for information. (Appendix B)

### 3. ASSURANCES

#### Risk Management

- 3.1 The Committee have continued to receive the Corporate Risk Register (CRR) as full agenda item on two occasions during the year. Work on refreshing the directorate risk registers in line with the CRR format and risk matrix has continued during the year and whilst the appropriate Scrutiny Commissions have responsibility for monitoring the directorate risk registers going forward, the Committee will maintain a watching brief on directorate risks by receiving the registers as information items from 2015/16 onwards.
- 3.2 The Committee has praised the more succinct and targeted risks in the Corporate Risk Register along with the comprehensive risk horizon, thereby ensuring that risks are mitigated in an effective and efficient manner. The Committee would expect to see the same approach reflected in the directorate risk registers going forward.

- 3.3 Work has continued throughout 2014/15 to develop the complimentary roles of senior management and Members to establish a focussed and effective risk management framework.
- 3.4 Directorate Leadership Teams have met to consider their Directorate risks and formal documentation of this work into fuller Directorate Risk Registers is progressing in line with available resource. A clear timetable for completion of this work has been agreed by SLT and it is anticipated that all risk registers will be ready for scrutiny review by the Directorate Scrutiny Commission early in the new municipal year when the scrutiny commission dates have been set.
- 3.5 In conclusion, the Committee notes the developments in strategic risk management, but accept that further development is required at a directorate level to ensure it is a helpful tool to Members and officers in pursuit of the Council's objectives. The Committee recognises that the programme for this development is progressing.

### **Annual Governance Statement (AGS)**

- 3.6 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. A more streamlined approach has been adopted in terms of the assurance process in order to make the process less of a laborious task and more part of the Council's business as usual framework. As such a level of assurance has been gained as part of Internal Audit's planned work together with an amount of assurance testing outside of the plan. This has included meetings/workshops with the S151 Officer, the Monitoring Officer, and other senior and key officers. All these officers have important responsibilities for ensuring an effective system of governance and internal control is in place.
- 3.7 The annual review of the AGS is currently in progress, and the Committee is satisfied it is a robust review process.
- 3.8 The Committee is pleased to note that a number of the matters raised in the 2013/14 Statement have now been resolved and that the resolution of matters arising in the 2014/15 Statement have all progressed well. The Committee received an update report on the Annual Governance Statement Action plan at its January 2015 meeting and noted that a number of matters were progressing towards a low level of risk and as such would no longer be considered an AGS significant issue going forward.
- 3.9 The Committee also received an Internal Audit report on the Governance arrangements in place for the Change Programme which was recognised as a significant matter in the AGS. The report concluded that the governance arrangements are good and that the programme is well managed. The Committee will receive a subsequent report on the governance arrangement regarding the financial benefits realisation element of the Change Programme which will be reviewed as part of the Internal Audit work programme for 2015/16.

- 3.10 In line with best practice, and recommendations from CIPFA and the Society of Local Authority Chief Executives (SOLACE) in relation to Governance, a Code of Corporate Governance was developed in 2008/9. The Code is currently undergoing a fundamental review with a revised Code due to be presented to the Committee in September 2015. The Committee have actively participated in this review in that it took part in a Governance workshop the outcome from which will be incorporated into the revised Code.

### **Internal Audit Assurance**

- 3.11 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.
- 3.12 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 2014.
  - Periodic update reports detailing Internal Audit's activity, performance against targets and areas where the control environment needs attention.
  - An annual Fraud Update report detailing the fraud/irregularity and Value for Money work which has been undertaken on the Council's behalf and the outcomes there of.
  - An Annual Report from the Chief Internal Auditor, in line with best practice in the CIPFA Public Sector Internal Audit Standards (PSIAS), 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. The Committee also acknowledges the continued and valuable support provided by SLT in ensuring the implementation of Audit recommendations; and the extended use of interim reporting by Internal Audit, thereby allowing the customer a specified timeframe to implement control changes leading to an improved control framework in an efficient and effective manner. The impact of this support and detailed action has been demonstrated by an increase in recommendation implementation in 2014/15.
  - Annual and half-year update reports on the work of the Housing Benefit Fraud Investigation Team.

3.13 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

3.14 Overall, the Committee is able to provide the Council with assurance that an adequate and effective internal audit service is in place, however the Committee have maintained a watching brief on the resourcing level within the Internal Audit service giving consideration to the limited resource that was in place during the year. The Committee are pleased to note that the team is now fully resourced and would like to pass on their thanks to the team for maintaining an adequate level of assurance despite their fluctuating resource during 2014/15.

#### **External Audit Assurance - Governance and Statement of Accounts**

3.15 External Audit (EA) 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.

3.16 Assurance received from the External Auditors, Grant Thornton, for 2014/15, is detailed in the work programme. Most significantly, the External Auditor's governance report (ISA 260) summarises conclusions from their audit work and provides their statutory opinion on the accounts and the Council's arrangements for achieving value for money. The EA reported an unqualified opinion for both the annual review of the Statement of Accounts for 2013/14 and the Value for Money conclusion. Some minor adjustments to improve the presentation of the financial statements were suggested by the External Auditor which were duly incorporated by the Council.

3.17 Additionally, the Committee has received the EA's Annual Audit Letter for 2014/15 in November 2014 which together with concluding an unqualified opinion on both the annual accounts and the Value for Money conclusion also concluded:

- an unqualified opinion on the Council's Whole of Government Accounts submission; and
- the certification of two grant claims and returns where the External Auditor did not identify any significant issues that need reporting.

- 3.18 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.
- 3.19 Local Public Audit Bill– the Committee continue to maintain a watching brief on the progress of this bill and the ultimate effect it may have on the external audit provision within the Council. In particular the Committee have noted that in line with the final stages of the move towards the Council appointing its own External Auditor, the Council has been allocated a new External Auditor for the final two Accounting years before self-appointment commences. As such the Council's external auditor for the 2015/16 and 2016/17 financial year-end accounts will be BDO LLP. The Council will need to have its self-appointed External Auditor in place for the 2017/18 financial accounts, although the procurement process will need to commence in 2016/17 if not before.

### **Anti-Fraud and Whistle-blowing**

- 3.20 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) and Tenancy Fraud Initiative.
- 3.21 In January 2015 the Committee considered a Fraud Update report, 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 the outcomes from a number of assessments in good practice with regard to the prevention, detection and investigation of Fraud. The checklists completed were:
- The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Managing Fraud;
  - The Fighting Fraud Checklist for Governance; and
  - The National Fraud Initiative (NFI) checklist for Elected Members and Decision Makers.

Key actions which were identified as a result of these assessments were incorporated into the Internal Audit work programme to ensure it facilitated improvements where required.

- 3.22 The Committee recognise that the work of Internal Audit on Tenancy fraud has continued successfully during 2014/15. The number of properties recovered to date is 38 which represents not just a saving to the Council in terms of the cost of short term accommodation for displaced families, but also a message to the citizens of Bristol that the Council supports the families and communities within Bristol in ensuring that those in greatest need receive assistance. The Committee are aware that despite funding for this exercise having ceased at the end of 2014/15, Internal



Audit having been prudent with the funding received previously are able to continue this work at this time.

- 3.24 The Committee has received a half yearly and a final report from the Housing Benefit Fraud Team, both of which have demonstrated the immense and essential contribution the team has made to the identification, investigation and resolution of housing benefit fraud/error over the years. The Housing Benefit Fraud team have now moved to the Single Fraud Investigation Service hosted by the Department of Work and Pensions (DWP) and the Committee would like to take this opportunity to thank all of the team members for their dedication and expertise over the years. A couple of the team members have opted to remain with the Council to work with the Internal Audit Corporate Fraud team, thereby retaining the valuable expertise they bring with them and providing continuity in the support offered with regard to Council Tax Reduction fraud investigation.
- 3.25 The Council's anti-fraud arrangements are generally in line with best practice with just a few areas identified for improvement. The Council understand the fraud threats it faces and works proactively to tackle the issues. The Council accepts that fraud will happen, particularly in the current climate, and where it does it reacts accordingly.

#### **Member Standards Matters:**

- 3.26 The Committee have considered matters appertaining to Members including:
- Appointment of Honorary Aldermen/Women
  - Consider applications for dispensations

It is envisaged the Committee will continue its responsibilities in this area going forward.

#### **Treasury Management**

- 3.27 The Committee have considered and where appropriate actively challenged the following reports with regards to treasury management:
- Quarterly update reports
  - Annual Strategy Report and Practices

The Committee consider that Treasury Management is satisfactory within the Council.

## **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 it 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:
  - Financial governance – Impact of further changes to Finance System.
  - Risk Management – continue to support and challenge the risk management arrangements within the Council and the mitigation of the risks there of.
  - overseeing Members Standards, developing policies and procedures
  - Information Security/Strategy
  - Impact of Local Public Audit Bill
  - Change Programme – Financial Benefits Realisation governance.
  - Treasury Management annual and quarterly update reports.
- New Areas:
  - Commissioning Governance – as the Council increases its provision of service through commissioning the need for effective governance in this area continues to be important
  - Customer Relations – report on the new system and the impact it will have on transparency and improved service provision.
  - Partnerships – Risks/opportunities, Value for Money
  - Transparency Code – impact and compliance

## 5. INDEPENDENCE

5.1 In 2014/15 the Audit Committee's membership was:

- Councillor Brain (Chair)
- Councillor Alexander
- Councillor Hanby
- Councillor Bolton
- Councillor Janke
- Councillor Mead
- Councillor Budd
- Ken Guy - independent member
- Brenda McLennan - independent member (Vice Chair)

5.2 The 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 Business Change 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 Business Change Scrutiny Commission are different Members
- ensuring clarity about the terms of reference for both the Audit Committee and the Scrutiny Commissions, to ensure a clear distinction in the roles.
- The appointment of an independent member who deals solely with matters appertaining to Member standards and code of conduct.

## **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 A training session on the Statement of Accounts for 2013/14 took place in September 2014. A further refresher will be provided for Members in preparation for their consideration of the 2014/15 accounts.
- 6.3 The Committee participated in a Governance workshop in March 2015, together with a collective assessment of the effectiveness of the Committee. The results of this assessment will be used to inform the training provision for Committee members and Council Members as a whole. The session also identified further governance areas for consideration by the Committee in 2015/16.
- 6.3 The Council's subscription to CIPFA's Better Governance Forum provides useful briefings for Audit Committees and these are shared with Members. Updates for 2014/15 have included:
- Audit Plans
  - Update on the Local Authority Local Audit Act
  - CIPFA Guidance on effective audit committees

Additionally, the briefings provide updates in governance matters and other hot topic areas relevant at the time of publication.

- 6.4 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 has demonstrated that it adds value to the Council's overall governance framework in that it has:

- Met the requirements under its terms of reference; in particular it has:
  - Provided robust and constructive challenge to the overall control and assurance environment of the Council.
  - Added value to the Risk Management process
  - Undertaken training in relevant areas as and when they have been identified.
  
- During 2015/16 the Committee will undertake to :
  - Continue to request officers to attend Committee meetings to aid in its understanding of the services and to aid in maintaining the momentum of ongoing improvements in the Risk, Control and Governance framework within the Council.
  - Assess its compliance against the CIPFA good practice guidance and act on the outcomes from that exercise;
  - Undertake continued training and development in relevant areas as and when they are identified.

## 8. Appendix:

- Appendix A – 2014/15 final Work Programme
- Appendix B – CIPFA ‘Good Practice’ checklist for audit committees.

**AUDIT COMMITTEE**  
**WORK PROGRAMME 2014/15**

<b>Meeting Date:</b>	<b>Work Programme - Details</b>
Friday 27 June 2014 9.30am	Confirm dates and times of meetings  Grant Thornton: <ul style="list-style-type: none"> <li>• Protecting the Public Purse 2013 Fraud Briefing.</li> <li>• Update Report</li> </ul> Internal Audit : <ul style="list-style-type: none"> <li>• Annual Report 2013/14</li> <li>• Audit Plan for 2014/15</li> <li>• Benefit Fraud Annual Report 2013/14</li> </ul> Member Standards Items:  <b>Information Items:</b> <i>To be determined</i>
Friday 11 <sup>th</sup> July 2014 9.30am	Draft Statement of Accounts 2013/14  Internal Audit: <ul style="list-style-type: none"> <li>• Draft Annual Governance Statement 2013/14</li> <li>• Corporate Risk Register</li> </ul> <b>Information Items:</b> <i>To be determined</i>

<b>Meeting Date:</b>	<b>Work Programme - Details</b>
<p>Tuesday, 23<sup>rd</sup> September 2014 6pm</p>	<p>Statement of Accounts Year Ended 31 March 2014</p> <p>Grant Thornton:</p> <ul style="list-style-type: none"> <li>• ISA260 Report</li> </ul> <p>Finance:</p> <ul style="list-style-type: none"> <li>• Treasury Management – Quarter 1 Report</li> </ul> <p>Internal Audit:</p> <ul style="list-style-type: none"> <li>• 1<sup>st</sup> Periodic (1<sup>st</sup> April – 31<sup>st</sup> July 2014) update</li> </ul> <p>Corporate Complaints:</p> <ul style="list-style-type: none"> <li>• Ombudsman Annual Report - Update</li> </ul> <p>Member Standards Items:</p> <p><b>Information Items:</b> Final Annual Governance Statement 2013/14 Updated Code of Corporate Governance 2014 Treasury Management 2-13/14 Annual report</p>
<p>Friday 7 November 2014 9.30am</p>	<p>Grant Thornton:</p> <ul style="list-style-type: none"> <li>• Annual Audit Letter</li> </ul> <p>Finance:</p> <ul style="list-style-type: none"> <li>• Treasury Management – Mid-year Report</li> </ul> <p>Internal Audit:</p> <ul style="list-style-type: none"> <li>• Risk Management Annual Report 2013/14</li> <li>• Benefit Fraud Investigation Half Year Report 2014/15</li> </ul> <p>Bristol 2015 Ltd Report</p> <p>Information Security Strategy - Update</p> <p>Member Standards Items:</p> <p><b>Information Items:</b></p>

Meeting Date:	Work Programme - Details
Friday 16 January 2015 9.30am	Grant Thornton: <ul style="list-style-type: none"> <li>• 2013/14 Grants Report</li> </ul> Finance: <ul style="list-style-type: none"> <li>• Treasury Management - Training</li> <li>• Treasury Management – Strategy Report and Practices</li> </ul> Internal Audit <ul style="list-style-type: none"> <li>• Fraud Update (inc. Tenancy Fraud Initiative)</li> <li>• 2<sup>nd</sup> Periodic Update (1 April to 30<sup>th</sup> November 2014)</li> <li>• Corporate Risk Register Review</li> </ul> Member Standards Items:  <b>Information Items:</b>
Friday 6 March 2015 9.30am	Internal Audit/Finance: Workshop Discussion on: <ul style="list-style-type: none"> <li>• Code of Corporate Governance</li> <li>• Audit Committee Effectiveness and skills review</li> </ul> General meeting to consider: <ul style="list-style-type: none"> <li>• Annual Governance Statement Action Plan Update</li> <li>• Markets Financial Update</li> <li>• <i>(along with standard items)</i></li> </ul>

<b>Meeting Date:</b>	<b>Work Programme - Details</b>
<p>Friday 24 April 2015 9.30am</p>	<p>Grant Thornton:</p> <ul style="list-style-type: none"> <li>• Audit Approach Memorandum</li> </ul> <p>BDO LLP:</p> <ul style="list-style-type: none"> <li>• Introduction</li> <li>• 2015/16 Planning Letter</li> </ul> <p>Finance:</p> <ul style="list-style-type: none"> <li>• Treasury Management – Quarter 3 Report</li> </ul> <p>Bristol Green Capital 2015 – Update</p> <p>Markets Financial Update</p> <p>Draft Audit Committee Annual Report to Council 2014/15</p> <p>Internal Audit:</p> <ul style="list-style-type: none"> <li>• 3<sup>rd</sup> Periodic Update (1 April 2014 – 28 February 2015)</li> <li>• Change Programme Governance Review</li> </ul> <p>Members Standard Items:</p> <p><b>Information Items:</b> <i>As required.</i></p>



**Evaluating the Effectiveness of the Audit Committee**

**Assessment key**

**Appendix A**

- 5 Clear evidence is available from a number of sources that the Committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable.
- 4 Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.
- 3 The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.
- 2 There is some evidence that the committee has supported improvements, but the impact of this support is limited.
- 1 No evidence can be found that the committee has supported improvements in this area.

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation examples, areas of strength and weakness	Overall assessment: 5-1 (see key above)
Promoting the principles of good governance and their application to decision making.	Providing robust review of the AGS and the assurances underpinning it.	The Committee receive both a draft and final AGS for scrutiny, challenge and approval, together with updates on the progress of remedial actions in place to deal with identified significant issues.	5
	Working with key members/governors to improve their understanding of the AGS and their contribution to it.	The Committee actively promote governance to other members as well as participating in governance workshops	4
	Supporting reviews/audits of governance arrangements	The Committee support the inclusion of the status of the governance framework in all Internal Audit reviews as well as requesting targeted governance reviews such as the review of the governance framework for the Change Programme.	5
	Participating in self assessments of governance arrangements.	The Committee participated in a self-assessment workshop on Governance and the Committee's effectiveness.	5
	Working with partner audit committees to review governance arrangements in partnerships	The Committee has attended briefings arranged by other neighbouring authorities, offering the opportunity to network with other Audit Committee Members.	2
Contributing to the development of an effective control environment's	Monitoring the implementation of recommendations from auditors	The Committee receives regular updates on the implementation of recommendations from both the Internal and External auditors and has utilised its call-in option where recommendations have not been implemented.	5
	Encouraging ownership of the internal control framework by appropriate managers	The Committee have received regular presentations from responsible managers for areas which it has deemed of concern to the control environment.	4
	Raising significant concerns over controls with appropriate senior managers.	As above	4
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	Reviewing risk management arrangements and their effectiveness, eg risk management benchmarking.	The Committee provides scrutiny and challenge for the Corporate Risk Register (CRR) which it formerly reviews every 6 months. The Committee also maintain a watching brief on the development of the Directorate risk registers, which they receive as information items once they have been cleared by Directorate Scrutiny Commissions.	5
	Monitoring improvements	The Committee provide a robust challenge mechanism to the CRR and as such the CRR has improved in the last year.	5
	Holding risk owners to account for major/strategic risks	Risk owners are actively challenged by the Committee during the CRR review process.	4
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	Specifying its assurance needs, identifying gaps in overlaps in assurance.	The Committee's work programme is collated in consultation the the Internal and External auditors whilst taking into account the work of other committees such as Scrutiny, in order to ensure duplication does not occur.	4
	Seeking to streamline assurance gathering and reporting.	The Committee has actively supported the Internal Audit service in its work to streamline the audit process, has received reports on the progress of the action and provided useful insight.	5
	Reviewing the effectiveness of assurance providers, eg internal audit, risk management, external audit.	The Committee receive regular reports from both the Internal and External auditors. Both provide the Committee with their annual work programmes for scrutiny and challenge.	5
Supporting the quality of the Internal Audit activity, particularly by organising its organisational independence.	Reviewing the audit charter and functioning reporting arrangements	The Audit Charter and Strategy is approved by the Committee either annually or when major changes have been made as with the incorporation of the requirement of the Public Sector Internal Audit Standards launched in 2013.	4
	Assessing the effectiveness of Internal Audit arrangements and supporting improvements	The Committee have received update reports on the Internal Audit provision and have utilised these to assess the effectiveness of the internal audit provision, including the level of resource and audit coverage.	4
Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and	Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place.	The Committee has received a report on the governance arrangements in place in the Council's overarching change programme. The Committee also maintains a watching brief on the programme monitoring its progress through Cabinet reports and the CRR.	5

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation examples, areas of strength and weakness	Overall assessment: 5-1 (see key above)
assurance arrangements.	Reviewing the effectiveness of performance management arrangements.	This function is carried out by the Scrutiny Commissions.	N/A
Supporting the development of robust arrangements for ensuring value for money.	Ensuring that assurance on value for money arrangements is included in the assurance received by the audit committee.	A large proportion of the Value for Money assurance is monitored by the Scrutiny Commissions, however the Committee maintain a watching brief whilst also identifying areas for particular consideration. VfM in partnership working will be considered as part of the Committee's work programme for 2015/16.	3
	Considering how performance in value for money is evaluating as part of the AGS	The Committee scrutinise the AGS process and subsequent final statement which takes consideration of the Council's achievement of Value for Money.	3
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	Reviewing arrangements against the standards set out in CIPFA's Management the Risk of Fraud (Red book 2).	The Committee receive an annual Fraud update which provides the outcomes from an annual review of the Council's fraud arrangements against the CIPFA code of practice on managing fraud. This includes the Red Book requirements.	5
	Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks.	The Committee review fraud risk as part of the annual review as detailed above, as well as taking reports through out the year from the Internal Auditor on the pro-active and reactive fraud work.	5
	Assessing the effectiveness of ethical governance arrangements for both staff and Members.	The Committee retain responsibility for reviewing the behaviour of Members against the Members Code of Conduct, with an independent member appointed to deal with any issues considered to need independent review. The Committee relies on its Internal Audit service to provide assurance regarding the behaviour of staff which is adjudged against the Council's Code of Conduct for Employees.	4
Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.	Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English.	The Committee actively support the need to ensure that reports are not made inaccessible due to the language/terminology used, challenging reports where the language and terminology impinges on transparency of the published information.	3
	Reviewing whether decision making through partnership organisations remains transparent and publicly assessable and encouraging greater transparency.	The Committee's default stance is that all reports should be available in the public domain, with exemption only applied where the information is either commercially or personally sensitive. The Committee will actively challenge where a report has been exempt but could have been considered in public session.	3