Public Document Pack

Audit Committee

Agenda

Date: Thursday, 20 July 2017

Time: 2.00 pm

Venue: City Hall

Distribution:

Councillors: Charlie Bolton, Barry Clark, Jos Clark, Olly Mead, Steve Pearce, Liz Radford, Afzal Shah and Clive Stevens

Copies to: Alison Mullis/Melanie Henchy-McCarthy Head of Internal Audit, Jonathan Idle Interim Chief Internal Auditor, BDO External Auditor, Denise Murray Service Director (Finance), Chris Holmes Interim Head of Service - Corporate Finance, Tony Whitlock Corporate Finance, Nancy Rollason Head of Service Legal & Democratic Services, Steve Gregory Democratic Services Officer.

Issued by: Steve Gregory, Democratic Services
City Hall, PO Box 3167, Bristol BS3 9FS
Tel: 0117 92 24357
E-mail: democratic.services@bristol.gov.uk
Date: 12 July 2017

Agenda

1. Improving Audit Committee Effectiveness Workshop

2. Welcome, Apologies, Introductions and Safety Information

(Pages 4 - 5)

3. Declarations of Interest

To note any declarations of interest from the Councillors. They are asked to indicate the relevant agenda item, the nature of the interest and in particular whether it is a **disclosable pecuniary interest**.

Any declarations of interest made at the meeting which is not on the register of interests should be notified to the Monitoring Officer for inclusion.

4. Minutes of Previous Meeting

To agree the minutes of the previous meeting as a correct record. **(Pages 6 - 11)**

5. Action sheet

To note actions taken since the last meeting. **(Page 12)**

6. Public Forum

Up to 30 minutes is allowed for this item.
Any member of the public or Councillor may participate in Public Forum. The detailed arrangements for so doing are set out in the Public Information Sheet at the back of this agenda. Public Forum items should be emailed to democratic.services@bristol.gov.uk and please note that the following deadlines will apply in relation to this meeting:-

Questions - Written questions must be received 3 clear working days prior to the meeting. For this meeting, this means that your question(s) must be received in this office at the latest by 5 pm on 14 July 2017.

Petitions and Statements - Petitions and statements must be received on the working day prior to the meeting. For this meeting this means that your submission must be received in this office at the latest by 12.00 noon on 19 July 2017.

7. Work Programme

To note the work programme. **(Pages 13 - 15)**

8. Terms of Reference for the Peer Review of Internal Audit

(Pages 16 - 23)

9. Internal Audit Activity Report for Q1-2017/18

(Pages 24 - 35)

10. External Auditor Appointment Process - Update

(Pages 36 - 40)

11. External Audit - verbal update report

12. DBS checks: requirements for Councillors - verbal update to be given at the meeting

Public Information Sheet

Inspection of Papers - Local Government (Access to Information) Act 1985

You can find papers for all our meetings on our website at www.bristol.gov.uk.

You can also inspect papers at the City Hall Reception, College Green, Bristol, BS1 5TR.

Other formats and languages and assistance For those with hearing impairment

You can get committee papers in other formats (e.g. large print, audio tape, braille etc) or in community languages by contacting the Democratic Services Officer. Please give as much notice as possible. We cannot guarantee re-formatting or translation of papers before the date of a particular meeting.

Committee rooms are fitted with induction loops to assist people with hearing impairment. If you require any assistance with this please speak to the Democratic Services Officer.

Public Forum

Members of the public may make a written statement ask a question or present a petition to most meetings. Your statement or question will be sent to the Committee and be available in the meeting room one hour before the meeting. Please submit it to democratic.services@bristol.gov.uk or Democratic Services Section, City Hall, College Green, Bristol BS1 5UY. The following requirements apply:

- The statement is received no later than **12.00 noon on the working day before the meeting** and is about a matter which is the responsibility of the committee concerned.
- The question is received no later than **three clear working days before the meeting**.

Any statement submitted should be no longer than one side of A4 paper. If the statement is longer than this, then for reasons of cost, only the first sheet will be copied and made available at the meeting. For copyright reasons, we are unable to reproduce or publish newspaper or magazine articles that may be attached to statements.

By participating in public forum business, we will assume that you have consented to your name and the details of your submission being recorded and circulated to the committee. This information will also be made available at the meeting to which it relates and placed in the official minute book as a public record (available from Democratic Services).

We will try to remove personal information such as contact details. However, because of time constraints we cannot guarantee this, and you may therefore wish to consider if your statement

contains information that you would prefer not to be in the public domain. Public Forum statements will not be posted on the council's website. Other committee papers may be placed on the council's website and information in them may be searchable on the internet.

Process during the meeting:

- Public Forum is normally one of the first items on the agenda, although statements and petitions that relate to specific items on the agenda may be taken just before the item concerned.
- There will be no debate on statements or petitions.
- The Chair will call each submission in turn. When you are invited to speak, please make sure that your presentation focuses on the key issues that you would like Members to consider. This will have the greatest impact.
- Your time allocation may have to be strictly limited if there are a lot of submissions. **This may be as short as one minute.**
- If there are a large number of submissions on one matter a representative may be requested to speak on the groups behalf.
- If you do not attend or speak at the meeting at which your public forum submission is being taken your statement will be noted by Members.

Webcasting/ Recording of meetings

Members of the public attending meetings or taking part in Public forum are advised that all Full Council and Cabinet meetings and some other committee meetings are now filmed for live or subsequent broadcast via the council's webcasting pages. The whole of the meeting is filmed (except where there are confidential or exempt items) and the footage will be available for two years. If you ask a question or make a representation, then you are likely to be filmed and will be deemed to have given your consent to this. If you do not wish to be filmed you need to make yourself known to the webcasting staff. However, the Openness of Local Government Bodies Regulations 2014 now means that persons attending meetings may take photographs, film and audio record the proceedings and report on the meeting (Oral commentary is not permitted during the meeting as it would be disruptive). Members of the public should therefore be aware that they may be filmed by others attending and that is not within the council's control.

Bristol City Council
Minutes of the Audit Committee

23rd June 2017 at 2 pm

DISCLAIMER

These Minutes are DRAFT. Whilst every effort has been made to ensure the accuracy of the information and statements and decisions recorded in them, their status will remain that of a draft until such time as they are confirmed as a correct record at the subsequent meeting

Committee Membership:-
Councillor Barry Clark; Councillor Jos Clark; Councillor Olly Mead; Councillor Steve Pearce; Councillor Liz Radford; Councillor Afzal Shah; Councillor Clive Stevens.
Independent Member(s): 2 x vacancies

Members Present:-
Councillor Jos Clark; Councillor Olly Mead; Councillor Liz Radford; Councillor Afzal Shah; Councillor Clive Stevens, Councillor Donald Alexander (substitute member).

Also in attendance:-
Councillor Anna Keen, Councillor Geoff Gollop;

Officers in Attendance:-
Alison Mullis/Melanie Henchy-McCarthy Head of Internal Audit, Jonathan Idle Interim Chief Internal Auditor, Greg Rubins - BDO External Auditor, Denise Murray Service Director (Finance), Chris Holmes Interim Head of Service - Corporate Finance, Tony Whitlock Corporate Finance, Nancy Rollason Head of Service Legal & Democratic Services, Steve Gregory Democratic Services Officer.

1. Election of Chair 2017/18

Councillor Jos Clark was elected Chair for the 2017/18 municipal year.

2. Election of Vice Chair 2017/18

Councillor Clive Stevens was elected Vice Chair for the 2017/18 municipal year.

3. Welcome, introductions, apologies and safety information

Apologies were received from Councillors Barry Clark and Steve Pearce. Councillor Steve Pearce was substituted by Councillor Donald Alexander, Councillor Liz Radford stated that she would have to leave the meeting at approximately 3.10 pm due to another appointment. Councillor Afzal Shah on arrival gave apologies for attending the meeting slightly late due to other commitments.

Members noted the resignation of Ken Guy Independent Member and gave their thanks and gratitude

www.bristol.gov.uk

for Ken's contribution whilst serving on the Committee.

4. Membership of the Committee 2017/18

The Membership of the Audit Committee was noted as –

Councillor Barry Clark; Councillor Jos Clark; Councillor Olly Mead; Councillor Steve Pearce; Councillor Liz Radford; Councillor Afzal Shah; Councillor Clive Stevens.
Independent Member(s): 2 x vacancy

With regard to the Independent Member vacancies, the Committee was informed that the process for appointments had been suspended pending the outcome of the review of the Council's Constitution.

5. Terms of Reference

The Terms of Reference as approved at Full Council on 23 May, 2017, were noted. Members were informed that the ToR's might be subject to change pending the review of the Council's Constitution.

6. Dates and times of meetings agreed as below, all starting at 2 pm on a Thursday

2017	2018
20 July	25 January
21 September	22 March
23 November	24 May

7. Declarations of Interest

Councillor Radford declared an interest in agenda item 14 draft Statement of Accounts 2016/17 citing that her husband worked for the Bristol Port Company.

8. Public forum

None received.

9. Minutes of 24 March 2017

The Minutes of the 24 March 2017 were agreed as a correct record.

10. Action sheet 24 March 2017

The Action sheet was noted. The Committee was also advised –

1. That training for new audit committee members was ongoing;
2. That the report about the Disclosure and Barring Service would be submitted to the July Audit Committee.

11. Work Programme

www.bristol.gov.uk

The Work Programme was noted. The Committee was also advised –

1. That Governance issues would be reported to the Committee at its September together with the final 2016/17 Annual Governance Statement and Action Plan, with updates on the progress of the Action Plan to come to every meeting thereafter;
2. Risk registers – frequency of reporting would be considered as part of the review of the Risk Management policy and strategy.

12. Internal Audit Annual report 2016/17

The Committee considered a report providing details of the work completed by Internal Audit during 2016/17 which included the Head of Internal Audit's opinion on the control, risk and governance environment.

The Committee received a presentation which explained the need and timing of the Internal Audit Annual report as -

- Meeting the Public Sector Internal Audit Standards (PSIAS)
- Annual report timed to support the Annual Governance Statement and included:
  - Annual opinion on the overall adequacy and effectiveness of governance, risk and control;
  - Summary of the work done from which the opinion is derived;
  - Disclosure of qualifications to the opinion;
  - Performance of IA;

During subsequent debate the following points were made or clarified –

1. Contract monitoring would continue to be closely monitored and feedback would be provided;
2. Areas of concern had been and would continue to be closely monitored with openness and transparency being a core theme;
3. Savings, both notional and recoverable arising from counter fraud activity in 2016/17 exceeded £4.5m. It was acknowledged that it was likely that such a level of savings could be enhanced dependent upon the level and utilisation of resources..;
4. Each directorate had risk registers which were regularly monitored and reported to the relevant scrutiny commissions quarterly. Future reports would be subject to a strategy review which would look at the escalation process, and give information on trends in risks e.g., where there were red flags;
5. Regarding red flags indicated for 'Assurance Opinion Work', members were informed that service 'owners' had given assurances that these areas would improve, this would be backed up by a 'follow up' process and further report back to the Committee to ensure improvement;
6. Benchmarking with other council's was discussed to determine if there was parity, in the provision of services/work;
7. A council wide issue regarding efficiency of financial savings from redundancy was queried. and it was agreed that the Human Resources Committee be asked to look into this matter.

Resolved – that the Internal Audit Annual report 2016/17 be noted.

13. Draft Annual Governance Statement

The Committee considered a report on the draft Annual Governance Statement and accompanying Action Plan, which sought to ensure the Committee that it was a fair reflection of the internal control and governance environment during 2016/17 and to date. Once finalised the Statement would be signed by the Mayor and the Chief Executive.

The Committee also considered an associated supplementary report regarding the first "Significant Governance Issue" within the Annual Governance Statement which related to the findings from the Bundred report with associated recommendations and the Council's response.

The Council's Deputy Monitoring officer made the following statement in respect of the Bundred report -

'A report relating to the Bundred review will be taken to full Council next Tuesday.

The annual governance statement provided to Audit Committee gives Members an assessment of the governance issues the authority has had and is dealing with and is consistent with the Bundred review. The action plan attached to the report to Audit Committee and Full Council provides Members with the current and future steps being taken to improve governance, financial regulation and leadership within the authority.
The focus of the debate at Audit Committee and full Council should therefore be whether the action plan provides Members with sufficient assurance of on-going improvements in this regard.

During the debate itself, care must be taken not to bring the Council into disrepute (see Code of Conduct for Members and the Officer/Member protocol attached) and, in particular, defamatory comments must not be made as these may affect the reputation of Members and Officers.

This could put the Council at risk of a legal claim and potentially Councillors at risk of a claim against them personally.

By way of information, the further review previously announced by the Mayor is being dealt with by the Chief Executive as Head of Paid Service.
The resulting report is likely to contain personal data or relate to employee matters that the Head of Paid Service is responsible for so will not be disclosable but dealt with in accordance with employment law and the Council's own policies and procedures.'

The Committee received a presentation on the Annual Governance Statement which emphasised that the City Council was required by the Accounts and Audit Regulations 2015 to prepare an Annual Governance Statement to accompany its published financial statements. A review of the internal control, risk management and governance arrangements had taken place. Significant issues emphasised were -

- the requirement for the Annual Governance Statement;
- the more robust review process undertaken to enable the Statement to be made;
- the draft Annual Governance Statement together with an action plan which detailed the most significant control and governance issues identified during 2016/17 and the actions for improvement in those areas.

During subsequent debate the following points were made or clarified –

1. A summary check sheet in respect of Governance performance to be submitted to every Audit Committee meeting from September 2017;
2. Regarding improvements made in 2016/17 reference to the posts of Chief Executive, Section 151 Officer and Monitoring Officer should include that the posts were now permanent;
3. The Vice Chair of the Committee expressed an interest in attending a Delivery Executive meeting to understand better how they work;
4. Members endorsed the format of the Annual Governance Statement as a more "user-friendly" document.

Supplementary report

After a Q&A session the message arising from the debate was that the Council needed to respond to the findings of the Bundred report with particular emphasis on -

- strong governance arrangements;
- clear ownership and accountability of savings programmes;
- clarity of what constituted an acceptable business case;
- building on improvements in the quality of reporting and document management;
- improving the quality of the Finance function including the modernisation of its role;
- ensure more timely reporting of budget monitoring information.

Resolved –

1. That the draft Annual Governance Statement and accompanying Action Plan be approved as a fair reflection of the internal control and governance environment during 2016/17, and to date, and once finalised the Statement be signed by the Mayor and the Chief Executive;

2. That the first "Significant Governance Issue" within the Annual Governance Statement relating to the findings from the Bundred report be noted.

(Councillor Radford left the meeting at this point)

(Councillor Shah attended the meeting at this point)

14. Draft Statement of Accounts 2016/17

The Committee considered a report about the Statement of Accounts which set out the Council's financial position as at 31 March 2017 and a summary of its income and expenditure for the year to 31 March 2017. Members were advised that the financial statements demonstrated the financial accountability and stewardship of the Council's financial position.

After Q&A session and during subsequent debate the following points were made or clarified –

1. A narrative would be included in the Statement to clarify the position relating to the surplus money arising from council housing revaluation;

www.bristol.gov.uk

2. Accounts were becoming increasingly difficult to understand so it was agreed that a simplified template be produced that would enable greater clarity. The external auditor along with officer and councillor involvement would pursue this.

Resolved – that the draft Statement of Accounts be noted.

15. External Audit update

The Committee considered a report in respect of the External Auditors (BDO) progress report for 2016/17. This updated the Audit Planning report presented to the Audit Committee on 24 March 2017. The report set out a revised assessment of the key risks identified in the previous report including an update of the estimated dates for completion of the Audit of the financial statements.

Resolved – that the External Audit update be noted.

16. Audit Committee Annual report 2016/17

The Committee considered a report regarding the Committee's activities during the year and its oversight of the Assurance and Risk Management, and Governance Frameworks within which the Council operated.

During consideration of this report, attention focussed on the issue of how the committee added value and independent members for the Audit Committee particularly the proposal to have an independent member as Chair of the Audit Committee. Members were informed that the process for appointments had been suspended pending the outcome of the review of the Council's Constitution which would be submitted to the full Council meeting on 18 July. Members of the Audit Committee expressed their desire to comment on this and asked that sufficient time be allowed for their views to be included.

The Deputy Monitoring Officer and Section 151 officer agreed to circulate relevant information to members to enable their full participation.

Resolved – that, subject to the above, the Audit Committee Annual report 2016/17 be approved.

Chair

Meeting ended 4.32 pm

Audit Committee Action Sheet – 23 June 2017

Action number	Item/report	Action and Deadline	Responsible officer	Action taken
1	Update on Council's Control Framework (based on the work of Internal Audit)	Disclosure and Barring Service checks not taken place - some in critical areas - update to be given to AC members. Report to be brought to a future meeting of the Audit Committee	NR	Added to work programme for July meeting
2	"	Downloading of Apps by Councillors risk of being charged. Officers investigating to be made aware of AC's concerns	MHC/AM	Pending
3	Internal Audit Annual Report 2016/17	Efficiency of financial savings from redundancy queried, Human Resources Committee be asked to consider this	DM/MHC/AM/SG	Pending (SG has informed DSO of HRC)
4	Annual Governance Statement	A summary check sheet in respect of Governance performance to be submitted to every Audit Committee meeting for 2017/18	JI/MHC/AM	Ongoing for 2017/18
5	Draft Statement of Accounts 2016/17	Investigation to produce more easy to understand accounts to be pursued	DM/CH/BDO	Ongoing
6	Audit Committee Annual report 2016/17	Comments from members relating to Independent members for the Audit Committee, particularly the proposal to have an independent member as Chair of the Audit Committee, be obtained and included in the proposal to the Council meeting on 18 July	DM/NR	Pending

AUDIT COMMITTEE

DRAFT WORK PROGRAMME 2017/18

Meeting Date	Report Author	Report Details	Routine Work Programme/ Other?	Officer Providing Report	Presented Y/N	Comments:
23rd June 2017 (AGM)		Confirm Dates and Times of Meeting	Routine	Steve Gregory		Note: suggested timing re June 2018
	External Audit:	Update Report	Routine	External Audit Lead		
	Internal Audit:	Audit Committee Annual Report to Full Council	Routine	Head of Internal Audit		
		Internal Audit Annual Report	Routine	Head of Internal Audit		
		Draft Annual Governance Statement	Routine	Head of Internal Audit		
	Finance:	Draft Statement of Accounts 2016/17	Routine	Service Director - Finance		
	Legal:	**Member Standards items:**				
		Information Items:				
		None				
20th July 2017 9.30am		Improving Audit Committee Effectiveness Workshop	Routine	Head of Internal Audit		
	External Audit:	Update Report	Routine	External Audit Lead		
	Internal Audit:	Terms of Reference for Peer Review of Internal Audit Service	Routine	Head of Internal Audit		
		Internal Audit Update (snapshort report and plan update)	Routine	Head of Internal Audit		
		External Auditor Appointment Process Update	Ad hoc	Head of Internal Audit		
	Legal	**Member Standards items:**				
		DBS Check Requirements for Members.	Requested	Legal and Democratic Services		
		Information Items:				
		None				
21st September 2017 2.00pm		Risk Workshop		External Audit Lead		
	External Audit	ISO 260 Report	Routine			
	Internal Audit	Final Annual Governance Statement 2016/17	Routine	Head of Internal Audit		
		Internal Audit Update and Governance Dashboard	Routine	Head of Internal Audit		
		Corporate Risk Register Update	Routine	Head of Internal Audit		
		Risk Management Policy Update	Routine	Head of Internal Audit		
	Finance	Final Statement of Accounts 2016/17	Routine	Service Director - Finance		
		External Auditor Appointment Process Update	Ad hoc	Service Director Finance/ Head of Internal Audit		
		Treasury Management Annual Report 2016/17	Routine	Service Director Finance/ Head of Internal Audit		
	Legal	**Member Standards items:**				
		Information Items:				
		Directorate Risk Register				
		Ombudsman Letter				

Meeting Date	Report Author	Report Details	Routine Work Programme/ Other?	Officer Providing Report	Presented Y/N	Comments:
23rd November 2017 2.00pm	External Audit	Annual Audit Letter	Routine	External Audit Lead		
	Internal Audit	Internal Audit Update and Governance Dashboard.	Routine	Head of Internal Audit		
		Update - CIPFA Code of Practice on Managing the Risk of Fraud and Corruption	Routine	Head of Internal Audit		
		Code of Goverance Update	Routine	Head of Internal Audit		
		Annual Governance Statement Update and Action Plan	Routine	Head of Internal Audit		
	Finance:	Treasury Management Half Year Report	Routine	Service Director Finance		
	Legal	**Member Standards items:**				
		Information Items: Directorate Risk Register				
25th January 2018 2.00pm	External Audit:	Grants Audit	Routine	External Audit Lead		
	Internal Audit:	Results of Peer Review of Internal Audit Service	Routine	Head of Internal Audit		
		Annual Governance Statement Update and Action Plan	Routine	Head of Internal Audit		
		Annual Whistleblowing Review	Routine	Head of Internal Audit		
	Finance:	External Auditor Appointment Process Update	Ad hoc	Service Director Finance/ Head of Internal Audit		
	Legal	**Member Standards items:**				
		Information Items: Directorate Risk Register				
22nd March 2018 2.00pm	Training	Statement of Accounts	Training	Service Director Finance		
		Annual Governance Statement	Training	Head of Internal Audit		
		Audit Committee Effectiveness - Self Assessment Review	Routine	Head of Internal Audit		
	External Audit	Audit Approach and Planning Letter	Routine	External Audit Lead		
	Internal Audit	Draft Annual Plan 2018/19	Routine	Head of Internal Audit		
		Audit Committee Annual Report to Full Council	Routine	Head of Internal Audit		
		Corporate Risk Register Update	Routine	Head of Internal Audit		
		Annual Fraud Update and Policy Review	Routine	Head of Internal Audit		
		Annual Governance Statement Update and Action Plan	Routine	Head of Internal Audit		
		Information Items: Directorate Risk Register				
24th May 2018 2.00pm *Possibly change to early Ju re draft account sign off*	External Audit	Update Report	Routine	External Audit Lead		
	Internal Audit	Internal Audit Annual Report	Routine	Head of Internal Audit		
		Draft Annual Governance Statement 2017/18	Routine	Head of Internal Audit		

Meeting Date	Report Author	Report Details	Routine Work Programme/ Other?	Officer Providing Report	Presented Y/N	Comments:
	Finance	Draft Statement of Accounts 2017/18	Routine	Service Director - Finance		
		Accounting Policies	Routine	Service Director - Finance		

Audit Committee

20th July 2017

Report of: Head of Internal Audit

Title: Terms of Reference for the Peer Review of Internal Audit

Ward: City-Wide

Officer Presenting Report: Melanie Henchy-McCarthy/Alison Mullis, Head of Internal Audit

Contact Telephone Number: O117 92 22063/22448

Recommendation

That the Committee endorse the proposed approach for the Peer Review of Bristol City Council's Internal Audit function, by Sheffield City Council's Internal Audit service, note the Terms of Reference, approve the nominated Sponsor for the exercise and undertake to monitor improvements within the service by receiving regular updates on actions implemented.

Summary

The Public Sector Internal Audit Standards (PSIAS) require that the Internal Audit service is reviewed once every five years, by a qualified and independent reviewer, external to the organisation. The Core Cities Chief Internal Auditors group has established a 'peer- review' process that is managed and operated by the constituent authorities. This process addresses the requirement for an external assessment by 'self-assessment with independent external validation'. This report provides the Committee with an overview of the Terms of Reference (TOR), which has been agreed by the Core Cities group, and will therefore be utilised for this review.

The significant issues in the report are:

Nominated sponsor for the exercise as detailed in paragraph 3.

Peer review process as summarised in paragraph 4 and in full in Appendix A.

Reporting and monitoring arrangements as detailed in paragraph 6 and in Appendix A

Policy

The external review of the Internal Audit function once every five years is a requirement of the Public Sector Internal Audit Standards (PSIAS) to which the Internal Audit service within Bristol City council is bound.

Consultation

1. **Internal**
   Interim Chief Internal auditor, S151 officer, SLT, Cabinet member for Finance, Governance & Performance, Audit Committee.

2. **External**
   Core Cities Chief Internal Auditors group.

Context

3. In April 2013, a new set of Public Sector Internal Audit Standards (PSIAS) became effective. These standards apply to the Internal Audit function in all parts of the public sector in the UK and are mandatory. Within the PSIAS there is a requirement for an independent external review of the internal audit function once every five years. In order to address this requirement, the Core Cities Chief Internal Auditors group, set up a peer review process, that is managed by the constituent members, to provide the external reviews.

   The purpose of the external review, is to establish compliance with the PSIAS, ensure that governance is embedded within the service and identify areas where further improvement is required, thereby ensuring that the service is fit for purpose and free from any influencing factors which may impact on its independence.

   The PSIAS outlines two possible approaches to obtaining an external assessment, either a full external assessment, or an internal self-assessment which is validated by an external reviewer. These options were discussed by the Core Cities group and it was agreed that the most effective approach would be to undertake an internal self-assessment with validation by an external reviewer from another Core City Council.

   In order to ensure that the peer review receives the appropriate support within the organisation is was also agreed by the Group, that the scope of the external assessment should have an appropriate sponsor, such as the Chair of the Audit Committee or Section 151 Officer. On this occasion it is recommended that the Chair of the Audit Committee should undertake this role.

4. **Peer Review Process**

   The peer review process will be led by the Chief Internal Auditor for Sheffield City Council, who meets the PSIAS requirements for an external reviewer. The full Terms of Reference for the peer review process is attached to this report at Appendix A; however in summary the process encapsulates the following three stages:

   - Pre-review – whereby the Audit service must complete an evidenced self-assessment

and submit it to the reviewing authority.

- Onsite Review – whereby the independent reviewer will spend time with the audit service, review documentary evidence and interview key stakeholders.
- Post-review- whereby the reviewer will evaluate the evidence collated and report accordingly.

5. **Peer Review Coverage**

The peer review will consider the work of the Internal Audit function for the last financial year of 2016/17 and to the date of the self-assessment completion at the end of July 2017, together with any improvements made between the self-assessment completion and the on-site review in September 2017.

The independent reviewer will seek input from key stakeholders within the Council; this may include discussions with the following members/officers:

- Chair of the Audit Committee
- Cabinet Member for Finance, Governance and Performance
- Chief Executive
- S151 Officer
- Monitoring Officer
- A sample of Internal Audit customers

The purpose of these discuss is to gain an understanding of the work of the Internal Audit function and its customers' view on the functions performance.

6. **Reporting**

A detailed report on the review findings will be made available to the Audit Committee once the review is complete, together with the service's improvement action plan which will be updated to reflect the recommendations resulting from the review. It is envisaged that the Audit Committee will monitor the improvements within the action plan by receiving regular updates on progress.

Proposal

7. That the Committee endorse the proposed approach for the Peer Review and note the TOR, agree the nominated sponsor for the exercise and undertake to monitor improvements within the service by receiving regular updates on actions implemented.

Other Options Considered

8. Assessment by external provider was considered, but discarded due to cost implication. Utilising the Core Cities Peer Review Group is cost neutral.

9. **Risk Assessment**

There is a limited risk of bias as each authority is known to each other; however it has been

agreed within the group that no reciprocal reviews will be undertaken, and as there are a number of new members to the group familiarity is not an issue.

Public Sector Equality Duties

10a) Before making a decision, section 149 Equality Act 2010 requires that each decision-maker considers the need to promote equality for persons with the following "protected characteristics": age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. Each decision-maker must, therefore, have due regard to the need to:

i) Eliminate discrimination, harassment, victimisation and any other conduct prohibited under the Equality Act 2010.

ii) Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to --

- remove or minimise disadvantage suffered by persons who share a relevant protected characteristic;
- take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of people who do not share it (in relation to disabled people, this includes, in particular, steps to take account of disabled persons' disabilities);
- encourage persons who share a protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

iii) Foster good relations between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to –
- tackle prejudice; and
- promote understanding.

10b) No equalities assessment necessary for this report.

Legal and Resource Implications:

Legal - N/A
Financial – N/A
Land – N/A
Personnel – N/A

Appendices:

- **Appendix A – Core Cities Peer Review Group - Terms of Reference.**

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985
Background Papers:

- Public Sector Internal Audit Standards
- Local Government Application Note for UK Public Sector

APPENDIX A

Core Cities Chief Internal Auditor Group

External Assessment – Peer Review

Terms of Reference

Background Information:

External Assessments:

The Public Sector Internal Audit Standard (PSIAS) introduced a requirement for an external assessment which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation.

The two possible approaches to external assessments outlined in the standard include either a full external assessment or an internal self-assessment which is validated by an external reviewer.

External reviewers should:

- Possess a recognised professional qualification
- Have appropriate experience of internal audit - at least five years at manager level within the public sector / local government
- Have detailed knowledge of leading practices in internal audit
- Have current, in-depth knowledge of the Definition, the Code of Ethics and the International Standards.

The Core Cities Chief Internal Auditors Group have agreed that the PSIAS external assessment process should be undertaken as a peer review whereby one authority would undertake a peer assessment of a different authority within the group. It was also agreed that reciprocal reviews would not be undertaken.

Members of the peer group:

Sheffield City Council, Leeds City Council, Liverpool City Council, Birmingham City Council, Nottingham City Council, Bristol City Council, Newcastle City Council, Manchester City Council and Glasgow City Council.

The Head of Internal Audit should discuss the proposed form of the external assessment with their line manager (where relevant) or Section 151 Officer (or equivalent) or Chief Executive prior to making recommendations to the Audit Committee regarding the nature of the assessment. The scope of the external assessment should have an appropriate sponsor, such as the Chair of the Audit Committee or Section 151 Officer.

The Head of Internal Audit should report the results of their quality assurance improvement programme (ongoing activity, internal and external

assessments) to stakeholders. Such stakeholders should monitor the implementation of actions arising from internal and external assessments.

Purpose of the Review

The purpose of the external assessment is to help improve delivery of the audit service to an organisation. The assessment should be a supportive process that identifies opportunities for development which ultimately helps to enhance the value of the audit function to your authority.

Proposed Approach

Members of the Core Cities Group have elected to adopt the latter of the 2 approaches with another member of the Core Cities group undertaking the validation of a self-assessment. The key benefit to this approach is cost. The Chartered Institute of Internal Auditors (CIIA) offer a service to provide external assessments and can undertake a full external quality assessment with an approximate cost of £15K (based on a quote obtained for the Internal Audit service at Sheffield City Council). They also provide a validated assessment, similar to the approach agreed by the core cities group, which takes approx. 5 working days and costs approx. £11k.

There are obvious financial savings to members of the Core Cities Group by adopting the peer review approach outlined within this paper. In addition, such an approach is in keeping with the promotion of collaborative working arrangements.

It has been agreed that each authority will determine the most appropriate member of their management team to conduct the external assessment, taking into account qualifications and relevant experience.

A standard template has been devised for the purposes of reporting conformance and this will be used by each core city. A moderation process will be developed to ensure consistency in the severity of issues being reported.

Independence and Objectivity

Prior to the commencement of the assessments taking place all parties agreed the programme of peer reviews and an appropriate timetable, including the number of days required to undertake the reviews. It is important to ensure the independence of the auditor undertaking the peer assessment. Any known or perceived conflicts of interest should therefore be disclosed. It should be acknowledged at the outset that all Core City Internal Audit Group have some knowledge of each other.

The Assessment Process

Completion of the Checklist:

Each Head of Internal Audit must complete the Checklist for Conformance with the PSIAS which is attached to the Local Government Application Note in advance of the external assessment. It is essential that the basis of the assessment is documented.

Pre Assessment Phase (2 days):

- Confirm the terms of reference for the review, timescales and dates for the review – this should include any specific issues that the authority may want to be considered as part of their quality assessment.
- Obtain background information in order to obtain an appreciation of the function. This should include the Internal Audit Charter / Strategy or Terms of Reference (independence, scope authority, purpose and the relationship with the Audit Committee and senior executives).
- Obtain details of responsibilities, resources, structure and activity.
- Obtain details of any external client organisations e.g. Joint Authorities and consider whether such organisations may have different outcomes in terms of compliance with the PSIAS and whether separate assessments may be required.
- Obtain the completed self-assessment along with a file of supporting evidence
- Obtain evidence of how quality is maintained and how performance is measured and reported.
- Issue a questionnaire to key stakeholders at the Council to obtain feedback on the internal audit procedures and process.
- Evaluate all documentation supporting the self-assessment prior to the on-site visit.

Assessment Phase (on-site visit) (1day):

- Raise and resolve any queries arising from the review of the self-assessment.
- Examine a sample of audit engagements according to the PSIAS and procedures.
- Interview key staff to confirm audit procedures and process.
- Undertake an exit meeting with the Head of Internal Audit.

Post Assessment Phase (1 day):

The review should conclude with a detailed report providing an evaluation of the Internal Audit activity's conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards highlighting any areas of partial conformance or areas which do not conform along with suggested actions for improvement, where appropriate.

Reporting Phase (1 day):

- Discussion of the draft report with the Head of Internal Audit.
- Issue of draft final report and agreed actions to the Head of Internal Audit to confirm accuracy.
- Issue final report to the Head of Internal Audit and Sponsor
- Head of Internal Audit / Sponsor to report to their Audit Committee, including an action plan and implementation dates.

It is envisaged that the assessment process should take approximately 5 days in total.

Proposed schedule for Bristol City Council

Sheffield City Council to undertake the peer review, with self-assessment to be provided late July/early August and on-site visit to be arranged for September 2017.

Audit Committee

20th July 2017

Report of: Interim Chief Internal Auditor

Title: Internal Audit Activity Report for Q1-2017/18

Ward: N/A

Officer Presenting Report: Melanie Henchy-McCarthy/Alison Mullis - Head of Internal Audit

Contact Telephone Number: 0117 92 22063/22448

Recommendation

The Audit Committee note the Internal Audit Activity in quarter 1 of 2017/18.

Summary

This Update Report provides the Committee with a summary view and status of the work undertaken by Internal Audit in quarter one of 2017/18, together with the resulting conclusions, where appropriate. Additionally, the report provides the Committee with oversight of grant certification work completed on behalf of the Council and an update on the Team's fraud work.

Significant Matters Arising:

- Key messages arising from this report at Section 2 of Appendix A;
- The impact of Ad-Hoc work requests on the Audit plan, Section 3 paragraph 3.1 of Appendix A;
- Potential savings for the Council as a result of the work of the Investigations Team, as detailed in Section 3, paragraph 3.6
- Value of Grants Certified by the Service in the first quarter, Section 3, paragraph 3.3.

1. Policy

Audit Committee Terms of Reference

2. Consultation

Internal – SLT including S151 Officer, Cabinet Member for Governance, Resources and Finance.
External – N/A

3. Context

3.1 This is the first of the IA Activity reports to the Audit Committee, which are designed to provide the Committee with a summary view of the work completed by the Service throughout the year. The activity reports will be provided to the Committee on a quarterly basis, with the exception of the November 2017 Committee meeting, when a fuller half-year report will be provided. The Activity report is provided to:

- Provide an overview of the work of Internal Audit to date, and the level of assurance that can be derived from that work;
- Provide a summary of the outcomes from our fraud and Value for Money (VfM) work to the end of the quarter.
- Present the assurance work completed and in progress by the Internal Audit team during the quarter, together with the conclusions we have drawn from that work.
- Spotlight any significant issues to management or the Audit Committee for their consideration and necessary action.

This first Activity Report in 2017/18 can be found at Appendix (A), with the key points to note provided below:

3.2 Key points arising from the Activity Report:

- Internal Audit Plan impacted by a significant increase in ad-hoc work requests, however temporary resource approved and being sourced to address this.
- Pro-active fraud work has already identified a good level of recoverable savings and recovered a number of council tenancies.
- 8 grants with a total value of £2.3m certified.
- Risk Management improvements are in progress.
- Recommendation implementation to be strengthened, following senior management undertaking.

4. Proposal

4.1 The Audit Committee note considers the work of the Internal Audit Team (IA), during Quarter 1 of 2017/18, and the results thereof, raising challenge where appropriate.

5. **Other Options Considered – N/A**

6. Risk Assessment

The work of Internal Audit minimises the risk of failures in the Council's internal control, risk management and governance arrangements, reduces fraud and other losses and increases the potential for prevention and detection of such issues. Areas of significant risk are detailed in the report.

Public Sector Equality Duties

8a) Before making a decision, section 149 Equality Act 2010 requires that each decision-maker considers the need to promote equality for persons with the following "protected characteristics": age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. Each decision-maker must, therefore, have due regard to the need to:

i) Eliminate discrimination, harassment, victimisation and any other conduct prohibited under the Equality Act 2010.

ii) Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to --

- remove or minimise disadvantage suffered by persons who share a relevant protected characteristic;

- take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of people who do not share it (in relation to disabled people, this includes, in particular, steps to take account of disabled persons' disabilities);

- encourage persons who share a protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

iii) Foster good relations between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to –
- tackle prejudice; and
- promote understanding.

8b) No Equality Impact anticipated from this report.

Legal and Resource Implications

Legal – N/A
Financial – N/A
Land – N/A
Personnel – N/A

Appendices:
Appendix A – Internal Audit Activity Report for Q1-2017/18

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985
Background Papers:

None.

BRISTOL
INTERNAL AUDIT

INTERNAL AUDIT ACTIVITY REPORT

FOR QUARTER (1)

1ST APRIL to 3OTH JUNE 2017

1. Introduction:

1.1 The role of the Internal Audit function is to provide Members and Management with independent assurance that the control, risk and governance framework in place within the Council is effective and supports the Council in the achievement of its objectives. The work of the Internal Audit team should be targeted towards those areas within the Council that are most at risk of impacting on the Council's ability to achieve its objectives.

1.2 Upon completion of an audit, an assurance opinion is given on the soundness of the controls in place. The results of the entire programme of work are then summarised in an opinion in the Annual Internal Audit Report on the effectiveness of internal control within the organisation.

1.3 This activity report provides Members of the Audit Committee and Management with the status of the work carried out by the Internal Audit (IA) team for the first quarter of 2017/18, together with an update on the Assurance Audit plan and any changes thereof, as well as updates in the following areas:

- Internal Audit Resources
- Grant certification
- Recommendation Implementation
- Proposed changes to the Risk Management process
- The work of the Investigations Team

1.4 The full details of all of the Internal Audit work completed or in progress in quarter (1) is provided at Section 4 of this report.

2. Key Messages

- Internal Audit Plan impacted by a significant increase in ad-hoc work requests. Temporary resource approved and being sourced to address this.

- Pro-active fraud work has already identified a good level of recoverable savings and recovered a number of council tenancies.

- 8 grants with a total value of £2.3m certified.

- Risk Management improvements are in progress.

- Recommendation implementation to be strengthened, following senior management undertaking.

3. Updates:

3.1 Annual Risk Based Assurance Plan Status

Due to an increased number of ad-hoc work requests in the areas of control, as detailed below, the Internal Audit proposed planned assurance work for quarter one is behind schedule. With the engagement of additional temporary resources however the service will be better placed to deliver the work required to inform our annual audit opinion.

The status of the planned work for quarter one is provided in Section 4 below. Work complete or in progress has generally been finalising reviews commenced during 2016/17 or grant certification work. Limited work has been completed in respect of new audits in the 2017/18 plan.

Ad-hoc work requests – Internal Audit are investigating whistleblowing concerns raised and have been requested to conduct reviews including in the following control areas:

- Code of Conduct
- Tendering Process
- Grant Funding
- The use of Purchase Cards
- Cheque Controls
- Sale of Council Assets
- Governance in Decision Making

Work in these areas is currently ongoing; however the resulting outcomes will be reported to the Committee in due course.

3.2 Internal Audit Resources:

The Audit Service is currently carrying a number of vacant posts, the equivalent of 3.7 full time equivalent (FTE) posts in its structure. Approval has been provided however to recruit a number of temporary senior auditors to address current shortages and assist in the completion of the Audit Plan. The cost of the additional resources will be contained from savings from team vacancies during the first and second quarters with a temporary boost from central resources as requirements dictate

3.3 Grant Certification Work:

During the year, Internal Audit certifies a high volume of grant claims, with a resource requirement of approximately 1 x fte post. Resources are currently allocated to 21 grants, however requests to certify a number of "one-off" grants through-out the year are also received and as such are resourced within the Audit Plan. During the first quarter, Internal Audit has audited and certified 8 grant claims to the value of £2,304,806, and where appropriate, recommendations have been made to the service administering the grant for improvements to the grant administration process. These recommendations will be followed-up in line with the Internal Audit follow-up process. Section 4 below, provides details of the grants certified in quarter one.

3.4 Recommendations Implementation

With the Head of Internal Audit's annual opinion for 2016/17 being 'Limited' assurance on the control framework, Internal Audit will ensure that the areas within the control framework that were considered weak are strengthened in order to improve the framework overall.

As such, Internal Audit is working with management to ensure that recommendations made as a result of Internal Audit work during 2016/17 are effectively and efficiently implemented.

The first step towards this implementation is the undertaking by Strategic/Service Directors that the outstanding recommendations from 2016/17 will be expediently implemented.

Internal Audit will continue to follow up outstanding recommendations until they are implemented, as well as ensuring that recommendations made during 2017/18 are followed up in year as appropriate.

Figure (1) provides the Committee with a baseline status of recommendations at the end of 2016/17, from which to track progress during 2017/18. Updates will be provided each quarter.

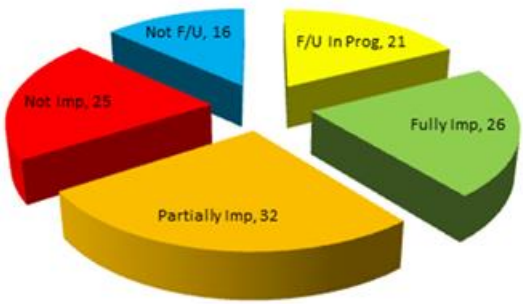

Figure (1): Year-End Status of Recommendations made in 2016/17.

3.5 Risk Management Update

A refresh of the Risk Management Policy has commenced, with officers across the organisation currently being consulted.

The Policy amendments aim to provide a foundation for a better understanding of risk with clearer definitions and a refreshed risk scoring matrix.

Consequently, Members will be consulted on the new policy at their September meeting.

3.6 Fraud Update:

Fraud investigation work continues at a pace, with the value of potentially recoverable savings currently at £325,648, and avoidable costs at £1,336 per week. Avoidable costs are where work has either stopped the funding leaving the Council or Audit actions have prevented further expenditure.

The Tenancy Fraud initiative has recovered six properties to date, which represents a nominal saving to the Council of £558,000, with many more cases to be reviewed as the year progresses the number of properties recovered will increase as the year progresses.

Responsive fraud work continues to be received by the Team, with a recent case resulting in the dismissal of an employee and the potential recovery of the misappropriated benefits.

The Teams work with the Department of Work and Pension's (DWP) Single Fraud Investigation Service (SFIS) continues to identify housing benefit cases for investigation and the recovery of overpaid benefits, amount identified in quarter (1) is £111,809 this figure is included in the recoverable savings total above. Additionally, the National Fraud Initiative (NFI) continues to provide us with sources of potential savings, amount identified in quarter (1) is £200,792 this figure is also included in the total recoverable savings above.

Under the Spotlight!

With each quarterly activity report, IA will turn the spotlight on the audit reviews where the residual level of risk was considered to be '**Red**', providing the Audit Committee with a summary of the issues identified and the number of high and medium recommendations made, thereby giving the Committee the opportunity to explore further, should it wish to do so. However, as the Committee will note from section 4 below, there are no 'Red' risk reports for this quarter.

4. Status of Internal Audit Work in Quarter (1): (1st April to 30th June 2017)

Risk Based Assurance Plan:

Audit Plan			Stage of Review			Outcome		Summary of Findings:
Directorate	Gov, Risk or Internal Control Area	Name of Review	Initial Planning/TOR	In Prog/ Ongoing	Complete	Assurance Level	Risk Level	Key Issues arising from the Report
Place	Financial Controls	Security Services (Cash In Transit)			✓	**Acceptable**	Amber	Ageing equipment that could impact on bus continuity
Neighbourhoods	Fraud - Detection	Tied Properties			✓	**Acceptable**	Green	
Corporate	Fraud - Strategic	Annual Fraud Survey - CIPFA			✓	**N/A**	**N/A**	
Resources	Financial Controls	Accounts Receivable		✓				
Neighbourhoods	Financial Controls	Directorate Budgetary Control bf/follow up		✓				
Neighbourhoods	Financial Controls	(b/f) NNDR Collection		✓				
People	Internal Control	(b/f) Foster Care Payments		✓				
Resources	Internal Control	Catering Service - Audit Complience		✓				
Resources	Projects and Programmes	HR/Payroll - New System Implementation		✓				
Corporate	Governance	(b/f) Budgetary Control Neighbourhoods		✓				
Corporate	Governance	(b/f) BIO		✓				
Corporate	Governance	AGS and Review - Quarterly Governance Dashboard plus annual elements		✓				
Neighbourhoods	Governance	Memorandum Of Understanding between BCC and DWP		✓				
Corporate	Fraud - Strategic	Open Data Reporting re Fraud (Transparency Code)		✓				
Corporate	Fraud - Prevention	Fraud Web page review and fraud warning bulletins		✓				
People	Fraud - Prevention	Direct Payment Fraud - Fraud Awareness Training for Social Workers (E learning module + New Social Workers)		✓				
People	Fraud - Prevention	Fraud Awareness Training - Caretakers		✓				
Place	Fraud - Detection	Residents Parking Zone		✓				
Neighbourhoods	Fraud - Detection	Housing Benefit Fraud - DWP Liaison		✓				
Neighbourhoods	Fraud - Detection	Council Tax Reduction		✓				
Corporate	Fraud - Investigation	Fraud Hotline		✓				
Corporate	Fraud - Investigation	GAIN/Police Enquiries		✓				
Neighbourhoods	Fraud - Investigation	Residual Benefit Fraud Prosecution Cases		✓				
Corporate	Fraud - Prevention	Fraud Awareness Induction		✓				

Grant Certification Plan:

Directorate	Gov, Risk or Internal Control Area	Name of Review	Initial Planning/TOR	In Prog/ Ongoing	Complete	Assurance Level	Risk Level	Value of Grant Claimed
Place	Governance	IBB - Investing in Bath and Bristol - 2015/16 . Two reports issued - 1 specific to 15/16 claim. 1 concerning overall administration of claim.			✓	**None**	TBC prior to issue of final report	**£938,876**

People	Governance	AGE Grant 16-17			✓	**Acceptable**	**Green**	**£27,410**
Neighbourhoods	Governance	Scambusters Grant - NTS Funding Grant Sub-Grant 2016/7 - Trading Standards Institute			✓	**Acceptable**	**Green**	**£339,270**
Place	Governance	Cattle Market Road LEP Grant 2016/17			✓	**Acceptable**	**Green**	**£278,231**
Place	Governance	Cattle Market Road LEP Grant 2017/18 Q1			✓	**Acceptable**	**Green**	**£95,019**
People	Governance	West of England- AGE - Apprenticeship Grant for Employers			✓	**Acceptable**	**Green**	**£126,000**
Place	Governance	PCN Penalty Charge Notice certification x2			✓	**Acceptable**	**Green**	**N/A Certificatin of amount payable to Department of Transport**
Place	Governance	WoE Economic Development Fund 15/16			✓	**Acceptable**	**Green**	**£500,000.00**
Chief Executive	Governance	URBACT III		✓				
Place	Governance	CRC Energy Efficiency Scheme Review and Certification		✓				
People/A&S Police	Governance	Troubled Families - July - Employment Claim		✓				
People	Governance	Troubled families certification		✓				
Place	Governance	Invest in Bristol & Bath- 16-17		✓				

Pro-active Fraud Savings:

Directorate	Gov, Risk or Internal Control Area	Name of Review	Initial assessment	In Prog/ Ongoing	Complete	2017/18 Savings		
						Cost Avoidance (weekly figure)	Recoverable Savings	Properties Recovered
Corporate	Fraud - Detection	National Fraud Initiative		✓		**£480**	**£200,792**	
Neighbourhoods	Fraud - Investigation	Tenancy Fraud		✓		**£270**	**£3,431**	**6**
Neighbourhoods	Fraud - Detection	NNDR Proactive Testing		✓				
Corporate	VFM/Targeted Savings	Telephones - (Ceased numbers)		✓		**£165**		
Corporate	VFM/Targeted Savings	Card payment - Charge Backs		✓				
Place	Fraud - Detection	Residents Parking Zone		✓				
Neighbourhoods	Fraud - Detection	Housing Benefit Fraud - DWP Liaison		✓		**£251**	**£111,809**	
Neighbourhoods	Fraud - Detection	Council Tax Reduction		✓		**£200**	**£2,602**	

Schools Financial Governance Plan:

Directorate	Gov, Risk or Internal Control Area	Name of Review	Initial Planning/TOR	In Prog/ Ongoing	Complete	Assurance Level	Risk Level	Key Issues arising from the Report
People	Governance	SFVS		Ongoing				
People	Internal Control	Bristol Gateway Special School		✓				

People	Internal Control	Woodstock Special School		✓				

Risk Management Improvements:

Directorate	Gov, Risk or Internal Control Area	Name of Review	Initial Planning/TOR	In Prog/ Ongoing	Complete	Assurance Level	Risk Level	Key Issues arising:
Corporate	Risk Management	Policy, Co-ordination, Facilitations		Ongoing				**Policy Refresh in draft and being consulted**

Audit Committee

20th July 2017

Report of: Director of Finance

Title: External Auditor Appointment Process – Update

Ward: City-Wide

Officer Presenting Report: Melanie Henchy-McCarthy/Alison Mullis, Head of Internal Audit

Contact Telephone Number: O117 92 22063/22448

Recommendation

The Audit Committee note the updated position regarding the process for appointment of external auditors including the timescales for challenging any appointment made.

Summary

This report provides an update to Members regarding the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.

The significant issues in the report are:

a) The procurement process, timetable and arrangement to make representations if necessary. Paragraph 4 details.

Policy
The Council must appoint an External Auditor to comply with the requirements of Section 7 of the Local Audit and Accountability Act 2014 (the Act).

Consultation

1. Internal
Interim Chief Internal auditor, S151 Officer, Strategic Leadership Team, Cabinet Member for Finance, Governance & Performance, Audit Committee.

2. External
None

3. Context

3.1 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. Current transitional arrangements include the audit of the accounts for 2017/18 by the Council's current external auditors – BDO ltd. New auditors will be appointed for the audit for 2018/19 going forwards. The External Auditor will be appointed for a period of five financial years beginning 1st April 2018.

3.2 A report was presented to the Audit Committee at its meeting on 25th November 2016 setting out the options for procuring an External Auditor. Audit Committee recommended and Full Council subsequently endorsed that the Council opt into the sector led body - Public Sector Audit Appointments – (PSAA) arrangements for procurement of External Auditors as a cost effective method of appointment.

4. Update: PSAA Procurement Process

4.1 The supplier selection stage ran from 16 February to 21 March 2017. Nine potential suppliers were invited by PSAA to tender.

4.2 The tender period was from 6 April to 10 May 2017. Eight responses were received and then evaluated by PSAA. This was completed on 25th May 2017.

4.3 A strategy and approach for the auditor appointment, allocation and consultation has been agreed by the PSAA Board. The key principles for allocation of firms to authorities will include:

- Auditor independence
- Meeting contractual commitment
- Accommodating joint/shared working arrangements as far as possible
- Ensuring a blend of authority types for each firm
- Taking account of a firm's principal location
- Continuity of audit firm, if possible

4.4 During the period 20th July 2017 to 14th August 2017, audit firms will be consulted to confirm their position on independence issues for each opted-in public sector body before PSAA can consult audited bodies on proposed appointments.

4.5 Between 14th August and 22nd September 2017, the Council will be consulted on the proposed firm selected to deliver its external audit service. If the Council is content with the appointment, no further action is needed. If the Council wishes to make representations against the proposal, it will need to do so in writing during this consultation window. The PSAA will consider all representations and will consult with the Council regarding a revised appointment. However, the PSAA Board will make the final decision.

4.6 Possible reasons for making a representation include:

- There is an independence issue, of which PSAA had not been informed;
- There are formal and relevant joint working arrangements, of which PSAA had not been informed; or
- There is another valid reason, for example, being able to demonstrate a history of receiving inadequate service from a particular firm.

4.7 The PSAA will review and consult on any representations. Following this, the Council has another window to make further representations (between 10th and 24th November 2017) before the PSAA Board approves all appointments on 14th December 2017.

4.8 The Council will receive confirmation of the external auditors appointed on 18th December 2017.

4.8.1 The following table summarises the appointment timetable.

Activity	**Target date**
Prepare schedule of proposed appointments	12th July 2017
PSAA Board approve proposed appointments	19th July 2017
Consult firms on proposed schedule of appointments	20th July – 14th August 2017
Consult audited bodies on proposed appointment	14th August – 22nd September 2017
Review any representations and consult and consult on proposed alternative appointment (iteration 1)	23rd September – 27th October 2017
Review any representations and consult and consult on proposed alternative appointment (iteration 2)	28th October – 27th November 2017
PSAA Board approves appointments	14th December 2017
PSAA issues appointment confirmation letters	18th December 2017
Consultation on proposed scale fees (see below)	October 2017 – January 2018
Scale fee approved by PSAA Board and confirmed	By 31st March 2018
Start date for auditor appointments for 2018/19	1st April 2018

5. Fee Setting Process

5.1 The 2018/19 fees will be determined by the prices achieved in the auditor procurement process. The PSAA will pool the scheme costs and charge fees to audited bodies in accordance with a

scale of fees which has regard to size, complexity and audit risk, most likely as currently evidenced by audit fees for 2016/17.

5.2 Firms must seek the PSAA approval to charge more or less than the scale fee. Variations are only expected to occur where the audits risks are significantly different from those identified in the national audit framework and reflected in the previous years' fees.

5.3 An update regarding the appointment of an External Auditor will be brought to September's Audit Committee.

Proposal

6. That the Committee note the procurement process and timetable including the timescales for challenging the appointments made.

Other Options Considered

7 Not applicable. Options were considered by Audit Committee at their meeting on 25th November 2016 and endorsed by full Council in December 2016. Opting in to the PSAA procurement process was selected.

Risk Assessment

8. There is no immediate risk to the Council. The Council is required to appoint an external auditor and the decision to opt into this scheme was made on the basis that it would deliver a cost effective procurement solution and should secure a favourable audit fee. The process enables the Council to make representations should it not be satisfied, for valid reasons, with the appointed external auditor.

Public Sector Equality Duties

9a) Before making a decision, section 149 Equality Act 2010 requires that each decision-maker considers the need to promote equality for persons with the following "protected characteristics": age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. Each decision-maker must, therefore, have due regard to the need to:

i) Eliminate discrimination, harassment, victimisation and any other conduct prohibited under the Equality Act 2010.

ii) Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to --

- remove or minimise disadvantage suffered by persons who share a relevant protected characteristic;

- take steps to meet the needs of persons who share a relevant protected characteristic

that are different from the needs of people who do not share it (in relation to disabled people, this includes, in particular, steps to take account of disabled persons' disabilities);

- encourage persons who share a protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

iii) Foster good relations between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to –
- tackle prejudice; and
- promote understanding.

10b) No equalities assessment necessary for this report.

Legal and Resource Implications:

Legal - N/A
Financial – N/A
Land – N/A
Personnel – N/A

Appendices:

- **None**

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985
Background Papers:

- Public Sector Audit Appointments Web Page.