

Audit Committee

Agenda



Date: Thursday, 23 November 2017

Time: 2.00 pm

Venue: Meeting room 1P 09, City Hall

Distribution:

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

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Date: 15 November 2017



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Agenda

1. Welcome, apologies, introductions and safety information 2.00 pm

SAFETY INFORMATION – PLEASE NOTE:

1. There are no planned fire alarm tests or drills. If the alarm sounds, please exit the room via the main entrance lobby at the front of the building.
2. Please then exit the building via the front ramp and assemble at the fire assembly point, which is on the paved area between the side entrance of the cathedral and the roundabout at the Deanery Road end of the building.
3. Please follow the instructions of the fire wardens and security staff on hand. Please do not return to the building until instructed to do so by fire wardens.

2. Declarations of interest

To note any declarations of interest from 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 declaration of interest made at the meeting which is not on the register of interests should be notified to the Monitoring Officer for inclusion.

3. Minutes of previous meeting

To agree the minutes of the previous meeting of the committee held on 21 September 2017 as a correct record.

(Pages 4 - 17)

4. Action sheet

To note the actions taken on relevant matters from the last meeting of the committee.

2.05 pm

(Pages 18 - 21)

5. Public forum

Up to 30 minutes is allowed for this item. Public forum items must be about matters that fall within the remit of the Audit Committee.

Any member of the public or councillor may participate in public forum. Public forum items should be emailed to democratic.services@bristol.gov.uk

Please note that the following deadlines will apply in relation to this meeting:



Questions - Written questions must be submitted by 5.00 pm on Friday 17 November 2017 at latest.

Petitions and statements - Petitions / written statements must be submitted by 12.00 noon on Wednesday 22 November 2017 at latest.

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| 6. Work programme - latest update - for information | (Pages 22 - 24) |
| 7. BDO's annual audit letter 2016-17 | 2.15 pm
(Pages 25 - 77) |
| 8. Internal Audit half-year activity report for the period 1 April - 31 October 2017 | 2.30 pm
(Pages 78 - 110) |
| 9. Internal Audit counter fraud update report for the period 1 April - 31 October 2017 | 3.00 pm
(Pages 111 - 125) |
| 10. Corporate Risk Register update | 3.30 pm
(Pages 126 - 138) |
| *** BREAK *** 4.00 – 4.15 pm | |
| 11. Internal Audit Quality Assurance Improvement Programme | 4.15 pm
(Pages 139 - 149) |
| 12. Internal Audit updated Charter, Terms of Reference and Strategic Statement | 4.30 pm
(Pages 150 - 166) |
| 13. Bundred report and Annual Governance Statement tracker - November 2017 | 4.45 pm
(Pages 167 - 187) |
| 14. Treasury Management mid-year report 2017-18 | 5.15 pm
(Pages 188 - 201) |
| 15. DBS checks for members of the Council | 5.30 pm
(Pages 202 - 211) |



Bristol City Council Minutes of the Audit Committee

21 September 2017 at 2.00 pm



Members present:-

Councillors Barry Clark, Jos Clark (Chair), Olly Mead, Steve Pearce, Liz Radford, Afzal Shah and Clive Stevens (Vice-Chair)

Officers in attendance:-

Denise Murray, Service Director - Finance; Jonathan Idle, Interim Chief Internal Auditor; Alison Mullis & Melanie Henchy-McCarthy, Head of Internal Audit (job share); Chris Holme, Interim Head of Corporate Finance; Nancy Rollason, Head of Legal Service and Deputy Monitoring Officer

1. Welcome, apologies, introductions and safety information

The Chair welcomed everyone to the meeting and attendees introduced themselves.

The Chair drew attention to the safety information as detailed on the agenda.

2. Declarations of interest

In relation to agenda item 13 (Internal Audit activity report for the period 1 April - 31 August 2017), with specific reference to the valuation process review of the sale of the Port freehold, Cllr Radford advised that her husband was an employee of Bristol Port Company.

No other interests were declared.

3. Minutes of previous meeting

RESOLVED:

That the minutes of the meeting of the Audit Committee held on 20 July 2017 be confirmed as a correct record subject to the following minor amendment:



Item 11 - External Audit verbal update: It was noted that the date quoted in para. 1 for the current sign-off of the Council's accounts should read as *"the...deadline of the end of September"* rather than *"the...deadline of the end of December."*

Matters arising (for information):

DBS checks – The Head of Legal Service advised that a draft policy report on DBS checks for councillors had been prepared, and the Cabinet member for Finance, Governance and Performance had been briefed on this. The Mayor and the other party group leaders would also be briefed on 9 November, following which the draft policy would be submitted for consideration at the next Audit Committee meeting on 23 November. The committee's work programme would be updated accordingly.

Appointment of independent members of the Audit Committee – The Head of Legal Service advised that the posts were currently being advertised, as a result of which there were already some expressions of interest.

4. Action sheet

The action sheet (tracking actions agreed at the 20 July meeting of the committee) was noted.

5. Public forum

None.

6. Work programme - latest update - for information

The latest update of the work programme was noted.

Main points raised/clarified/noted in discussion:

- a. A series of training workshops had been added to the work programme, to take place from 1.30 - 2.00 pm immediately in advance of each committee meeting.
- b. The agenda for the next meeting on 23 November included a focus on a number of Internal Audit reports, including the half-year update report and the Internal Audit quality assurance and improvement plan, and the Internal Audit charter and strategy refresh.
- c. In relation to the current trial of the new scrutiny arrangements, the Overview and Scrutiny Management Board would be appropriately responsible for reviewing the effectiveness of the new arrangements, with particular reference to the "task and finish" approach to scrutiny that was being piloted. From a governance perspective however, it was agreed that it would be important for the Audit Committee to maintain a "watching brief" over the pilot arrangements as they develop.



7. Final annual governance statement 2016-17

The committee considered a report seeking approval of the Final Annual Governance Statement (AGS) 2016-17 and an accompanying action plan.

The Interim Chief Internal Auditor and Service Director - Finance presented the report, highlighting the following:

- a. As outlined in the report, a more robust approach had been followed in 2016-17, involving senior managers across the Council, to provide assurance for the AGS. A wide range of officers / budget holders had been engaged as part of this process, including the development of the action plan.
- b. The AGS referenced the externally commissioned Bundred review, including specific reference to the fact that all officers comprising the Council's Strategic Leadership Team share the corporate responsibility for addressing the recommendations flowing from the Bundred review report.
- c. In terms of the Council's governance, a number of external peer challenges would take place in 2017-18. A major review of the Council's constitution was also in progress.

Main points raised/clarified/noted in discussion:

- a. Given the emphasis placed within the AGS on ensuring a more transparent and open culture within the Council, the Chair expressed some concerns about the reduction in scrutiny resource/activity. It was noted though that the current scrutiny review was member-led and that the effectiveness of the "task and finish" pilot approach would be carefully assessed with full member involvement. An important potential advantage of the task and finish approach was that it facilitated very early scrutiny engagement and a genuine opportunity to focus in depth on scoping and developing particular policy/proposals.
- b. Action was being taken to ensure full officer compliance with the need to complete on-line information security training - currently 94% of the workforce had completed this. Councillors were also now being required to undertake this training - as with the approach to ensuring officer compliance, reminders would be issued to councillors as appropriate and assistance/ support offered where this was required.
- c. In 2016-17, only 68% of staff had registered the completion of performance reviews. A management decision had now been taken to review and refresh the "My Performance" framework, as a result of which there was a current pause in performance reviews. Whilst this was unfortunate, the aim moving forwards was to ensure a strengthened and improved performance framework.

Noting and taking into account the above, the committee

RESOLVED:

That approval be given to the Final Annual Governance Statement together with the action plan as a fair reflection of the internal control and governance environment during 2016-17 and to date, prior to it being signed by the Mayor.



8. Statement of accounts - year ended 31 March 2017

The committee considered a report of the Service Director - Finance seeking approval of the Statement of Accounts for the year ended 31 March 2017.

The Interim Head of Corporate Finance presented the report, highlighting the following:

- a. The Statement of Accounts set out the Council's financial position as at 31 March 2017 together with a summary of its income and expenditure for the 2016-17 financial year.
- b. The audit of accounts had identified one significant change to the draft accounts relating to the valuation of the Council's housing stock. This change, together with a number of agreed minor changes had been incorporated into the revised Statement of Accounts set out at Appendix 1. The original valuation used for the Council's housing stock had been undertaken at 1 April 2016, not 31 March 2017. In previous years, the timing of this valuation had not been an issue. However, the significant upward movement in house prices in Bristol during 2016-17 had created a material error in the valuation. An upward revaluation had therefore been made and the accounts adjusted accordingly.

Main points raised/clarified/noted in discussion:

- a. Page 54 - note 1 (adjustments include charges for PFI and for financing the capital programme and the transfer of the surplus on the HRA and the deficit on the General Fund): It was clarified that these were accounting adjustments made as part of the reconciliation of the financial outturn report.

(Note: Cllr Shah arrived at the meeting at this point, 2.32 p.m.)

- b. Page 55 - It was clarified that the HRA income and expenditure statement showed a surplus of £4.8m for the year (the Council owned and managed 27, 198 homes).
- c. Page 55 - It was clarified that that the £31m investment in schools buildings (to provide additional pupil capacity to meet increased demand for school places) was post-PFI funding, financed through the DfE Basic Needs allocation.
- d. Page 80 - Reserves: It was noted that there was increasing pressure on reserves, with school reserves reduced substantially. This issue had been picked up in further detail in the period 4 budget monitoring report submitted to the Cabinet on 19 September and work was taking place with schools around this issue.
- e. Page 97 - Avon Pension Fund: It was clarified that in May 2014, the Council had made a payment of £42m to the Avon Pension Fund in respect of the pension deficit for the period 2014-15, 2015-16 and 2016-17.
- f. Page 108 - Remuneration costs: It was clarified that the remuneration figures included a significant number of employment severance payments.



- g. Page 109 - External audit costs: It was clarified that the fees quoted accorded with the fees agreed at the outset of the financial year.
- h. Page 133 - Council tax/debtor analysis: It was clarified that council tax income was increasing due to a growth in the council tax base and due to increased council tax levels. A range of appropriate measures were taken to recover debts owed in relation to council tax. As at 31 March 2017, local tax payers' debt was £13,106,000 gross (net - £6,633,000), the overall expected council tax collection being approx. £190m. A fuller picture/analysis of the council tax debt in 2016-17 would be available by November. Consultation was taking place currently on the Council Tax Reduction Scheme for 2018-19.
- i. Page 143 - Provisions - insurance fund: It was noted that valuation of "unique" assets (e.g. paintings/artefacts at the City Museum and Art Gallery) was carried out on a "fair" value basis, i.e. on the basis of the most likely, best value that could be obtained for that type of asset.
- j. In relation to the revaluation of the Council housing stock, Cllr Stevens drew attention to the fact that this effectively meant that the average value of a council home was in the region of £60-70,000. It was noted that the valuation represented a considered fair value taking account of liabilities, including tenant right to buy. Finance officers agreed to supply a briefing note on this issue to Cllr Stevens.
- k. Page 81 - Cllr Pearce raised an issue about the detail of how valuation decisions on investment properties were made and assessed/kept under review. Finance officers agreed to supply a briefing note on this issue to Cllr Pearce.

Noting and taking account of the above, the committee

RESOLVED (unanimously, all 7 committee members voting in favour, and none against)

That the Statement of Accounts for the year ended 31 March 2017 be approved.

9. External Auditor's ISA 260 report

The committee considered the External Auditor's ISA 260 report.

Prior to the presentation of the report, the Chair and committee members expressed concern that this report had not been available at the time of the publication of the agenda ahead of this meeting (i.e. the report should have been published with the agenda at least 5 clear working days in advance of the meeting).

Matthew Hepenstal, BDO, apologised for the fact that the report had not been available at the time of the original agenda publication.

Matthew Hepenstal then presented the report, highlighting the following:

- a. The External Auditor intended to issue an unqualified audit opinion on the Council's financial statements. The audit would be formally concluded by the deadline date of 30 September.



- b. In relation to the Council's use of resources /sustainable finances, however, the External Auditor intended to issue a qualified conclusion. This was essentially as a result of appropriate arrangements not being in place at the start of the 2016-17 financial year to address the Council's budget deficit. It was recognised that measures had been taken to mitigate the overspend during the course of the financial year, but the External Auditor view had been taken on the basis that measures were not in place for the entirety of 2016-17.
- c. A number of recommendations for improvement had been made. Officers would respond to these recommendations at the next Audit Committee on 23 November.

Main points raised/clarified/noted in discussion:

- a. Page 20 – Group Accounts: It was noted that Bristol Energy had incurred significant losses to date, although it had built up a customer base. Bristol Waste was profitable and had built up reserves of £4m. BDO had identified that the Council's investment in its subsidiaries was carried at £7.2m, which had been calculated on the basis of the net asset value of the subsidiaries. The method employed to value this investment was not in line with accounting guidance but BDO was satisfied that the actual amount was materially correct. BDO expected the difference between cost and valuation (£6.7m) to be a charge against expenditure in the year, with general fund balances therefore reducing by that amount.
- b. The governance arrangements for the Council owned subsidiary companies were currently the subject of a separate external review. In discussion, it was suggested that as part of that review, it would be appropriate for consideration to be given to requiring the Bristol Waste and Bristol Energy audit committees to report to this committee annually on their respective governance arrangements.
- c. Page 29-30 - Sustainable finances: Members noted the summary of action taken in 2016-17. It was also noted that in 2017-18, reasonable progress has been made towards achieving the Council's savings target. However, the most recent financial monitoring reports indicated that approx. £3m of the 2017-18 planned savings were at risk. Adult and children's social care in particular were experiencing increased care package costs – functional areas across the organisation had held in abeyance a number of management controls to enable expenditure to be managed (primarily deferring non-committed expenditure and workforce savings) to ensure the Council kept within its financial resource.

Noting and taking account of the above, the committee

RESOLVED:

That the BDO 2016-17 ISA 260 report and action plan be noted.

Note: The meeting was adjourned at this point (4.10 p.m.) and reconvened at 4.20 p.m.



10. Bundred report and annual governance statement tracker

The committee considered a report of the Service Director - Finance on the progress made to date against the action plan arising from the Bundred review and the 2016-17 Annual Governance Statement (AGS).

The Service Director - Finance presented the report, highlighting the following:

- a. This was the first progress report submitted in line with the agreed monitoring arrangements.
- b. In relation to the 85 actions identified following the Bundred review, 48 (56%) were completed and evidenced (Green rating); 37 (44%) were in progress with evidence demonstrated (Amber rating).
- c. In relation to the 22 actions identified following the 2016-17 AGS, 4 (18%) were completed and evidenced (Green rating), 17 (77%) were in progress with evidence demonstrated (Amber rating) and 1 action (5%) was not yet started. In terms of the AGS action completion rate, it was important to note the timing of the Bundred review and the emphasis and focus that has been placed on many of these areas, bearing in mind that the AGS action points had been more recently identified.

Main points raised/clarified/noted in discussion:

- a. The “RAG” rating assessments as presented in the report were endorsed in each case by the Service Director - Finance as the authority’s Section 151 Officer.
- b. Activity ref. B7 (Green rating) - An OSM Board led review of the Council’s arrangements for scrutiny: The initial identified action had been completed; as discussed earlier at the meeting, a further review would take place of the effectiveness of the new scrutiny arrangements that were currently being piloted.
- c. Activity ref. B16 (Green rating) - New business case template introduction: Cllr Mead asked that a copy of the new business case template be sent to him.
- d. Activity ref. B40 (Green rating) - The development of a protocol on councillor/officer engagement: The protocol had been drafted by the Monitoring Officer and would be included as part of the report on constitutional changes to be submitted to the Full Council on 14 November.
- e. Activity ref. B53 (Green rating) – Achieving a culture that ensures it is “safe for truth to be spoken to power” etc: Tools and techniques to promote an improved organisational culture around honesty and transparency had been tested over the summer with a volunteer manager group and were now being shared with managers across the Council. A larger piece of work to engage the wider organisation will need to be constructed/progressed.
- f. Activity ref. B57 (Amber rating) - Participation in the LGA corporate peer challenge: the original date for the challenge had been postponed due to the Grenfell Tower tragedy; a new date was being discussed with the LGA.
- g. Activity ref. B64 (Amber rating) - Finance function - monitoring and pro-actively managing non-compliance: A 3 stage formal review process was being brought in to ensure budget manager compliance with budgetary control / financial process requirements.



- h. Activity ref. B74 (Amber rating) - Ensuring the finance function is agile / adaptable etc: A number of interim senior financial management appointments had been made to assist the process of moving to a permanent finance structure that would be fully fit for purpose.
- i. Activity ref B76 (Amber rating) - Business partners and the new shared service to lead the business support function: Work was progressing on the new permanent structure, which, once finalised, would need to be implemented.
- j. Activity ref. AGS 6.3 (Red rating) - Internal Audit to complete assurance reviews of the effectiveness of procurement and contract management arrangements: Due to the staffing situation and other priorities, this review had not yet been started but work on this review would progress within the current financial year.

Noting and taking account of the above, the committee

RESOLVED:

That the progress made to date against the Bundred review and 2016-17 AGS action plans be noted and acknowledged.

11. Risk management policy

The committee considered a report of the Service Director - Finance seeking endorsement of the draft Risk Management Policy and asking the committee to recommend the policy for approval by the Cabinet.

It was noted that immediately prior to this meeting, members had participated in a risk management training workshop.

The Head of Internal Audit presented the report, highlighting the key amendments, which included:

- a. Revised arrangements to ensure active member involvement in corporate risk management.
- b. A newly clarified definition of a corporate risk to clarify that the Corporate Risk Register should contain risks with a risk score of 14 or above on the risk matrix.
- c. A revised risk matrix and associated guidance, together with a standard risk register template.

In discussion, whilst generally supporting the revised policy, the committee agreed that in recommending the approval of the policy to the Cabinet, they also wished to additionally recommend the following further adjustments:

- i. In terms of the revised arrangements designed to ensure member involvement in corporate risk management, member scrutiny of directorate risk registers should be retained (section 5.3 of the policy should be adjusted accordingly).
- ii. With regard to section 6.8 of the policy ("Where current risk levels are lower than the risk tolerance, an action plan is required that will result in the risk level reducing"), further clarification should be added to require the production of a business case in those circumstances where a reduction in cost (e.g. of a particular service) may result in increasing risk.



Noting and taking account of the above, the committee

RESOLVED:

That the draft Risk Management Policy be endorsed (subject to the 2 adjustments highlighted in i. and ii. above) and recommended for approval by the Cabinet.

12. Corporate risk register review - progress update

The committee considered a report of the Service Director - Finance on the approach and progress made on reviewing the Corporate Risk Register (CRR).

The Head of Internal Audit presented the report, highlighting the following:

- a. The key risk themes (section 5 of the report) identified to date from a wide ranging survey involving senior managers across the Council.
- b. The next stages would involve a careful review and assessment of those risks that should appropriately be included in the updated CRR (section 6 of the report). The final, updated version of the CRR would be submitted to the Strategic Leadership Team and Cabinet for sign-off, and would be reported to the Audit Committee.

In discussion, Cllr Stevens suggested that in the coming years, the implementation of Brexit was likely to bring about (on a national and local level) an increase in health and social care costs for local authorities, in addition to demographic pressures affecting this area - the risks associated with this should be kept under close review.

Noting and taking account of the above, the committee

RESOLVED:

That the approach and progress made on reviewing the Corporate Risk Register be noted.

13. Internal audit activity report for the period 1 April - 31 August 2017

The committee considered a report of the Interim Chief Internal Auditor on internal audit activity for the period 1 April – 31 August 2017.

The Interim Chief Internal Auditor presented the report, highlighting the following:

- a. Audit Plan: Temporary resources were supporting the completion of planned audit work.
- b. The report had been enhanced and now included summaries of completed audit reviews (set out at appendix 1).
- c. Pro-active fraud work had identified a good level of recoverable savings.



- d. Risk management improvements were being progressed (as per the reports considered earlier at this meeting).

With reference to the summaries of completed audits included at appendix 1, the Service Director - Finance advised the committee that officers were additionally recommending that, given the previous public interest in the issue, the outcomes of the valuation process review of the sale of the Port freehold carried out by Internal Audit be reported to the Full Council for information.

Main points raised/clarified/noted in discussion:

- a. In relation to audit plan resources, members queried the level of resources available to deliver the Internal Audit Plan.
- b. Members welcomed the inclusion of summaries of completed audits.
- c. The purchase card review had identified a number of areas for improvement, including 10 specific recommendations for action/implementation. This included the implementation of a number of new controls and tighter checking processes.
- d. In relation to the review of the valuation process of the Port freehold sale, the Internal Audit conclusion included the view that the valuations had taken account of the “special purchaser” status of the tenant, i.e. the additional worth, from the tenant’s perspective, of owning the freehold.

Noting and taking account of the above, the committee

RESOLVED:

- 1. That the Internal Audit activity report for the period 1 April - 31 August 2017 be noted.**
- 2. That, given the previous public interest in the issue, the outcomes of the valuation process review of the sale of the Port freehold carried out by Internal Audit be reported to the Full Council for information.**

14. Treasury management annual report 2016-17

The committee considered a report of the Service Director - Finance setting out the Treasury Management annual report for 2016-17.

The Interim Head of Corporate Finance presented the report, highlighting the following:

- a. During this reporting period, the Council had complied with treasury management legislative and regulatory requirements, and all transactions were in accordance with the strategy.
- b. Within the 2016-19 Treasury Management Strategy, a medium term borrowing requirement of £150m was identified to support the existing and future capital programme. The council’s agreed policy was to defer borrowing while it had significant levels of cash reserves (£70m at March



2017). The Council had borrowed, as planned, £19.2m from the Public Works Loan Board (PWLb) at a preferential rate for the Bristol Temple Meads east regeneration scheme, reducing the interest rate risk and liquidity risk exposed to the Council.

Main points raised/clarified/noted in discussion:

- a. Cllr Pearce raised a general issue about the degree of risk levels generally considered to be appropriate by local authorities in relation to investments. In discussion, it was noted that risks levels in relation to investments were reviewed annually. It was noted that Cllr Pearce and Cllr Stevens would seek a separate meeting with finance officers to discuss this particular matter in greater detail.
- b. In relation to borrowing, the Council tended to deal with the PWLB as this route generally secured the most advantageous borrowing rate for local authorities.
- c. A full business case had been prepared to support the decision to invest £5m in a long term treasury investment in a property fund to help tackle homelessness. The scheme would see around 30 additional one and two bedroom properties purchased that would then be available at affordable rents to homeless households from Bristol. The properties would be managed as private lets by Real Lettings, a management arm of one of the Council's existing partners, homeless charity St Mungo's.
- d. The report would be submitted to the Full Council on 14 November for information.

Noting and taking account of the above, the committee

RESOLVED:

That the Treasury Management Annual Report for 2016-17 be noted.

15. External auditor appointment process - information item - verbal update

The committee received a verbal update on the external auditor appointment process.

The Head of Internal Audit advised that the Council had been advised by Public Sector Audit Appointments (PSAA) that Grant Thornton was the proposed external auditor for the Council for 2018-19.

The committee noted that any objections to the proposed appointment needed to be raised by 22 September. Members indicated that they were content with this appointment.

Noting and taking account of the above, the committee

RESOLVED:

That the update on the External Auditor appointment process, and the notification/proposal from PSAA that Grant Thornton will be the Council's external auditor in 2018-19 be noted, without objection.



16. Unspent returned grants 2016-17 - information item

The committee considered a report setting out information on unspent returned grants in 2016-17.

The Service Director - Finance presented the report, highlighting the following:

- a. The report set out details of 3 returned grants, namely:
 - Looked after children pupil premium - £278, 260 repaid in 2016-17.
 - Year 7 literacy and numeracy catch-up pupil premium - £1,500 repaid in 2016-17.
 - Green Deal community grant funding - £3,290,515 repaid in 2016-17.
- b. As indicated in para. 6.6, in light of the scale of the Green Deal refund, Internal Audit had been commissioned to undertake an in-depth review and report. This review would be concluded shortly and it was anticipated that the report would be ready for submission to the next Audit Committee on 23 November.

In discussion on the Green Deal refund, whilst noting that the detailed report was awaited, members suggested that it would be useful to determine, if possible, the extent to which best practice in procurement had been achieved in the selection of contractors, as anecdotal evidence had suggested variations in the quality of work undertaken by different contractors.

Noting and taking account of the above, the committee

RESOLVED:

That the report be noted.

17. Local Government Ombudsman annual review letter - information item

The committee considered the Local Government and Social Care Ombudsman's (LGO) annual review letter.

The Head of Legal Service presented the report, and advised that a summary report on the LGO letter and findings would be submitted to the 14 November Full Council for information.

In discussion, members noted that 22 complaints had been upheld by the LGO following investigation. In terms of the Full Council report, it would be useful to include (for context) details of the number of complaints upheld by the LGO in relation to other comparable councils, e.g. core cities.

Noting and taking account of the above, the committee



RESOLVED:

That the LGO annual review letter be noted, and that it be noted that a summary report (including details of the number of cases upheld by the LGO in relation to other comparable councils) will be submitted to the 14 November Full Council.

18. Audit Committee annual report 2016-17 - addendum

The committee considered a report of the Chief Internal Auditor which asked members to consider whether the priorities to enhance the effectiveness of the Audit Committee for 2017-18 require amendment.

The Chief Internal Auditor presented the report, highlighting the following:

- a. Appendix B to the report set out the complete detail of the self-assessment evaluation of the effectiveness of the Audit Committee (the version submitted to Full Council on 18 July as part of the annual report of the committee had not included complete details).
- b. Members were specifically invited to consider if the priorities to enhance the effectiveness of the committee in 2017-18 required amendment

Main points raised/clarified/noted in discussion:

- a. It was agreed that the following additional priorities should be added for 2017/18:
 - i. Reviewing the Council's business continuity planning, including disaster recovery. In discussion, Cllr Pearce suggested that as well as providing assurance around the Council's own business continuity / disaster recovery planning, it was also important to seek assurance around the business continuity planning and disaster recovery certifications of the range of bodies that the Council interacts with, that may impact on the Council. Finance officers undertook to check the position on this.
 - ii. Assisting the review of the effectiveness of the pilot scrutiny arrangements from a governance perspective. It was suggested that in the new calendar year, a joint workshop on this issue (involving the Overview and Scrutiny Management Board and the Audit Committee) should be considered.
- b. Cllr Stevens asked that officers send him a copy of the Council's ethical investment policy.

Noting and taking account of the above, the committee

RESOLVED:

That the following additional Audit Committee priorities be added for 2017-18:



- i. **Reviewing the Council's business continuity planning, including disaster recovery.**
- ii. **Assisting the review of the pilot scrutiny arrangements from a governance perspective.**

Meeting ended at 6.10 pm

CHAIR _____



Audit Committee Action Sheet – actions from meeting held on 21 September 2017

Action number	Item/report	Action and deadline	Responsible officer	Action taken / progress
1	DBS checks (Item raised under minutes of previous meeting - 20 July 2017)	Mayor and party group leaders to be briefed on 9 November. Report to be submitted to the Audit Committee on 23 November.	Nancy Rollason	Included on agenda.
2	Statement of Accounts - year ended 31 March 2017 Issue: valuation of the Council's housing stock	A briefing note to be sent to Cllr Stevens with further detail about how the valuation of the Council's housing stock is carried out.	Chris Holme	
3	Statement of Accounts – year ended 31 March 2017 Issue: valuation decisions on investment properties	A briefing note to be sent to Cllr Pearce with further detail on how valuation decisions on investment properties are made and assessed/kept under review.	Chris Holme	
4	Statement of Accounts – year ended 31 March 2017 Issue: Letter of representation to BDO (external auditor)	Following the Audit Committee's approval of the Statement of Accounts, the letter of representation (to be signed by the committee Chair and the S151 Officer) to be sent to BDO.	Chris Holme	Action completed - 30.9.17
5	External Auditor's ISA 260 report Issue: Officer response to BDO recommendations for improvement	A report to be submitted to the Audit Committee on 23 November setting out officer responses to BDO's recommendations for improvement.	Denise Murray / Chris Holme	Included on agenda

Action number	Item/report	Action and deadline	Responsible officer	Action taken / progress
6	External Auditor's ISA 260 report Issue: Governance – Bristol Energy and Bristol Waste	The Audit Committee feels consideration should be given to the audit committees of Bristol Waste and Bristol Energy reporting to the BCC Audit Committee annually on their respective governance arrangements. This view to be fed in to the current review of governance of companies owned by BCC.	Denise Murray / Jonathan Idle	
7	Bundred report and annual governance statement tracker Issue: In relation to Activity ref B16 – new business case template introduction	A copy of the new business case template to be sent to Cllr Mead.	Chris Holme	
8	Risk management policy	Updated policy (incorporating adjustments agreed by the Audit Committee) to be submitted to the Cabinet for approval.	Jonathan Idle / Alison Mullis	On course to be submitted to Cabinet on 4 December 2017
9	Internal Audit activity report for the period 1 April – 31 August 2017 Issue: Valuation process review of the sale of the Port freehold	A report on the outcomes of the valuation process review of the sale of the Port freehold carried out by Internal Audit to be submitted to the Full Council (14 November) for information.	Jonathan Idle	Submitted to Full Council on 14 November
10	Treasury management annual report 2016-17	The Treasury Management annual report to be submitted to the Full Council (14 November) for information.	Jon Clayton	Submitted to Full Council on 14 November 2017

Action number	Item/report	Action and deadline	Responsible officer	Action taken / progress
11	Unspent returned grants 2016-17 Issue: Internal Audit in-depth review of Green Deal refund	The report from the in-depth Internal Audit review of the Green Deal refund to be submitted to the Audit Committee on 23 November.	Jonathan Idle	Included on Agenda.
12	Local Government and Social Care Ombudsman annual review letter	A summary report on the LGO annual review letter (including details on the number of cases upheld by the LGO in relation to comparable councils) to be submitted to the Full Council (14 November) for information.	Nancy Rollason	Submitted to Full Council on 14 November.
13	Audit Committee annual report 2016-17 – addendum	Audit Committee priorities for 2017-18 to be updated to include: i. Reviewing the Council’s business continuity planning, including disaster recovery. ii. Assisting the review of the pilot scrutiny arrangements from a governance perspective	Jonathan Idle	To be updated at Committee
14	Audit Committee annual report 2016-17 – addendum Issue – Business continuity planning, including disaster recovery	Assurance to be sought around the business continuity planning and disaster recovery certifications of the range of bodies that the Council interacts with, which may impact on the Council.	Denise Murray / Chris Holme	
15	Audit Committee annual report 2016-17 – addendum Issue – Joint workshop with OSM Board	A joint OSM Board / Audit Committee workshop to be considered in the new calendar year to review the piloted new scrutiny arrangements from a governance perspective.	Nancy Rollason / Lucy Fleming	
16	Audit Committee annual report	A copy of the Council’s ethical investment policy to	Chris Holme	

Action number	Item/report	Action and deadline	Responsible officer	Action taken / progress
	2016-17 – addendum Issue – Ethical investment policy	be sent to Cllr Stevens		

**AUDIT COMMITTEE
DRAFT WORK PROGRAMME 2017/18**

Meeting Date	Report Author	Report Details	Routine Work Programme/ Other?	Officer Providing Report	Comments:
23rd June 2017 (AGM)	External Audit: Internal Audit: Finance: Legal:	Confirm Dates and Times of Meeting Update Report Audit Committee Annual Report to Full Council Internal Audit Annual Report Draft Annual Governance Statement Draft Statement of Accounts 2016/17 Member Standards items: Information Items: None	Routine Routine Routine Routine Routine Routine	Steve Gregory External Audit Lead Head of Internal Audit Head of Internal Audit Head of Internal Audit Service Director - Finance	Note: suggested timing re June 2018
20th July 2017 9.30am	Proposed Training: External Audit: Internal Audit: Legal	Improving Audit Committee Effectiveness Workshop Update Report Terms of Reference for Peer Review of Internal Audit Service Internal Audit Update (snapshot report and plan update) External Auditor Appointment Process Update Member Standards items: DBS Check Requirements for Members. Information Items: None	Training Routine Routine Routine Ad hoc Requested	Head of Internal Audit External Audit Lead Head of Internal Audit Head of Internal Audit Head of Internal Audit Legal and Democratic Services	
21st September 2017 2.00pm	Proposed Training: Internal Audit Finance External Audit Corporate Internal Audit Internal Audit Internal Audit Finance Finance Legal Internal Audit	Risk Workshop - The Committee's role and where it needs Assurance Final Annual Governance Statement 2016/17 Final Statement of Accounts 2016/17 ISO 260 Report Bundred Report and Annual Governance Statement Tracker Risk Management Policy Update Corporate Risk Register Update Internal Audit Activity Report Treasury Management Annual Report 2016/17 External Auditor Appointment Process Update DBS Policy Audit Committee Annual Report - Addendum	Training Routine Routine Routine Routine Ad hoc Ad hoc Ad hoc	Internal Audit Service Director: Finance/ Head of Internal Audit Service Director - Finance External Auditor Lead Strategic Director Resources / Service Director Finance Head of Internal Audit Head of Internal Audit Head of Internal Audit Service Director Finance Service Director Finance/ Head of Internal Audit Head of Internal Audit	A Refresh on the Audit Committee's role with regards to Risk Management, and to explore whether greater assurance is required.

Meeting Date	Report Author	Report Details	Routine Work Programme/ Other?	Officer Providing Report	Comments:
	Legal	Member Standards items: Information Items: <i>Ombudsman Letter</i>			
23rd November 2017	Planned Training:	Governance Workshop, including the role of Audit (Both Internal & External - What the Committee need in terms of Assurance)	Training	Internal Audit	To explore the Role of the Internal and External Audit Function and the assurance they can give the Committee
2.00pm	External Audit	Annual Audit Letter	Routine	External Audit Lead	
	Internal Audit	Internal Audit Half-Year Activity Report Internal Audit - Half-Year Investigation Update Report including, CIPFA Code of Practice on Managing the Risk of Fraud and Corruption Internal Audit Quality Assurance and Improvement Plan Internal Audit Charter & Strategy Refresh Bundred Report and Annual Governance Statement Tracker	Routine Routine	Head of Internal Audit Head of Internal Audit	
	Corporate	Corporate Risk Register - Update	Routine Routine	Head of Internal Audit Head of Internal Audit	
	Finance:	Treasury Management Half Year Report	Routine	Strategic Director Resources / Service Director Finance	
	Legal	Member Standards items: Information Items:	Routine	Service Director Finance	
25th January 2018	Proposed Training:	Commissioning and Partnership Governance (What the Committee need in terms of Assurance)	Training	Internal Audit to facilitate	To provide the Committee with an understanding of the partnership and commissioning governance within the Council, and the role the Committee play in providing Assurance
2.00pm	External Audit:	Grants Audit	Routine	External Audit Lead	
	Internal Audit:	Results of Peer Review of Internal Audit Service Code of Governance Update and Re-design (Draft) Bundred Report and Annual Governance Statement Tracker	Routine Routine	Head of Internal Audit Head of Internal Audit	
	Corporate			Strategic Director Resources / Service Director Finance	
	Finance:	External Auditor Appointment Process Update	Ad hoc	Service Director Finance/ Head of Internal Audit	
	Legal	Member Standards items: Information Items:			
22nd March 2018	Proposed Training:	Audit Committee Effectiveness Workshop	Training	Service Director Finance	To equip the Committee with an understanding of the Accounts and the areas where it requires assurance
2.00pm	Corporate	Bundred Report and Annual Governance Statement Tracker		Strategic Director Resources / Service Director Finance	

Meeting Date	Report Author	Report Details	Routine Work Programme/ Other?	Officer Providing Report	Comments:
	External Audit	Audit Approach and Planning Letter	Routine	External Audit Lead	
	Internal Audit	Draft Annual Plan 2018/19 Audit Committee Annual Report to Full Council (Draft) Corporate Risk Register Update Annual Whistleblowing Review	Routine Routine Routine Routine	Head of Internal Audit Head of Internal Audit Head of Internal Audit Head of Internal Audit	
	Legal	Member Standards items: Information Items:			
24th May 2018	Proposed Training:	Statement of Accounts - including Financial Governance and what the Committee needs in terms of Assurance.Value for Money Assurance - What the Committee needs!	Training	Finance/Internal Audit to facilitate	To explore the ways in which the Audit Committee can provide assurance in terms of Value for Money in the Council
2.00pm	External Audit	Update Report	Routine	External Audit Lead	
Possibly change to early June re draft account sign off	Internal Audit	Internal Audit Annual Report for 2017/18 Draft Annual Governance Statement 2017/18 Annual Fraud Update and Policy Review Draft Statement of Accounts 2017/18 Accounting Policies	Routine Routine Routine Routine Routine	Head of Internal Audit Head of Internal Audit Head of Internal Audit Service Director - Finance Service Director - Finance	
	Finance				
	Legal	Member Standards items: Information Items:			

Audit Committee

23 November 2017



Report of: *BDO LLP*

Title: *BDO's Annual Audit Letter 2016/17*

Ward: *City Wide*

Officer Presenting Report: *BDO LLP*

Contact Telephone Number:

Recommendation

The Audit Committee note, and comment as appropriate, on BDO's Annual Audit Letter for 2016/17 and the Council's management responses to the ISA 260 Audit Report.

Summary

Attached to this report is BDO's Annual Audit Letter for the year ended 31 March 2017. The Annual Audit Letter summaries the key issues arising from the work BDO have carried out at Bristol City Council during the 2016/17 audit. The letter is designed to communicate the key messages to the Council and external stakeholders, including members of the public. The letter will be published on the Public Sector Audit appointments website www.psaa.co.uk and also the Council's website.



Policy

None affected by this report. The Audit Commission has statutory responsibility for inspection and assessment at the Council. BDO are the Council's appointed external auditors. In carrying out their audit and inspection duties they have to comply with the relevant statutory requirements, namely the Local Audit and Accountability Act 2014.

Consultation

- 1. Internal**
Director of Finance
- 2. External**
None

Context

- 3.** *BDO is required to form an opinion on the Council's financial statements and to provide a value for money conclusion. This report summaries the work undertaken over the course of the year and the conclusions from the work.*

Representatives from BDO will be attending the Committee and will be pleased to answer Member's questions.

Other Options Considered

- 4.** *None*

Risk Assessment

- 5.** *None necessary for this report*

Public Sector Equality Duties

- 6.** *None necessary for this report*

Legal and Resource Implications

Legal

None arising from this report

Financial

(a) Revenue

None arising from this report

(b) Capital

None arising from this report

Land

Not Applicable

Personnel

Not Applicable

Appendices:

BDO's Annual Audit Letter

BDO ISA 260 Audit Report with management responses

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:

None

BRISTOL CITY COUNCIL



ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2017
31 October 2017

EXECUTIVE SUMMARY

PURPOSE OF THE LETTER

This annual audit letter summarises the key issues arising from the work that we have carried out in respect of the year ended 31 March 2017. It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public. It will be published on the website of Public Sector Audit Appointments Limited.

RESPONSIBILITIES OF AUDITORS AND THE TRUST

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's (NAO's) Code of Audit Practice (the Code), and to review and report on:

- The Council's financial statements
- Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

BDO LLP
31 October 2017

AUDIT CONCLUSIONS

FINANCIAL STATEMENTS

We issued our unmodified true and fair opinion on the financial statements on 29 September 2017.

We reported our detailed findings to the Audit Committee on 21 September 2017.

We reported on uncorrected misstatements which management and the Audit Committee concluded were immaterial.

USE OF RESOURCES

We issued an adverse conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 29 September 2017.

The basis for the adverse conclusion related to the Council not having in place proper arrangements for ensuring financial sustainability and for informed decision making throughout the whole of 2016/17.

FINANCIAL STATEMENTS

OPINION

We issued our unmodified true and fair opinion on the financial statements on 29 September 2017.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the Council’s circumstances have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates and the overall presentation of the financial statements.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Our audit was scoped by obtaining an understanding of the Council and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and the direction of the efforts of the audit team.

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
<p>Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p>	<p>Our response to this risk included:</p> <ul style="list-style-type: none">• testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements• reviewing accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud• obtaining an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.	<p>Our audit work in relation to journals did not identify any significant issues.</p> <p>We did not find any indication of management bias in accounting estimates and no unusual transactions outside of the normal course of business were identified.</p>

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
<p>Under International Standards on Auditing (UK and Ireland) 240, there is a presumed significant risk of fraud for income recognition.</p> <p>In particular, we consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance criteria and / or conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).</p>	<p>In addressing this audit risk, we tested a sample of grants subject to performance criteria and / or conditions to confirm that conditions of the grant have been met before the income is recognised in the CIES.</p>	<p>No issues noted.</p>
<p>Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date.</p> <p>The Council operates a rolling valuation programme to ensure that all properties are valued at least every five years.</p>	<p>We reviewed the instructions provided to the valuer and confirmed the valuer's qualifications and experience and confirmed that we could rely on the management expert.</p> <p>We identified that the valuations for housing properties were performed at 1 April 2016 and not at the year end. If house prices in Bristol had been reasonably static, this would not have led to a material error in the accounts. However, Bristol housing property increased significantly in 2016/17 and therefore the valuation needed to be updated to reflect values at 31 March 2017.</p> <p>The revised valuation has been used to prepare the Council's accounts and the draft accounts that were previously approved and placed on the Council's website have been corrected.</p> <p>The impact of this adjustment has been to increase the balance sheet value of the Council's housing by more than £200 million. There is also an impact on the 2015/16 accounts, as the same method has been used in previous years, resulting in a prior year adjustment of £231m.</p>	<p>The Council needed to correct its draft accounts to enable the corrected values to be included in the audited financial statements.</p>
<p>The Council is experiencing a very difficult financial position due to budget pressures and difficulty in achieving its previous savings plans.</p> <p>The Council has approved a revision to its Minimum Revenue Provision (MRP) calculation and in 2016/17 will calculate the MRP using a new basis.</p>	<p>We responded to this risk by focusing on the significant estimates and judgements that could influence the Council's financial position at year end. In particular, estimates and judgements that impact materially upon the Council's general fund balance, such as use of provisions, were subject to increased scepticism.</p> <p>We reviewed and challenged the revised basis for calculating the MRP and assessed the approach adopted by the Council.</p>	<p>No issues arising from this work.</p> <p>We reviewed the basis for calculating the MRP for 2016/17 and concluded that it was acceptable.</p>

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
<p>The Council has interests in a range of different external organisations including some wholly owned subsidiaries.</p> <p>In 2015/16 these were not sufficiently material to require the Council to prepare Group Accounts. In 2016/17, the scale of the transactions and the size of the investment increased to the extent that they became a material element of the Council's operations and required the preparation of Group Accounts to consolidate the accounts of its subsidiaries.</p>	<p>We reviewed and challenged the paper that is prepared by management to support the approach for accounting for the Council's subsidiaries. We agreed with management that group accounts were required.</p> <p>We obtained information from the auditor of the subsidiaries to enable us to confirm that the auditor was independent of the subsidiaries and that we could rely on their work. We received audited accounts for each subsidiary that we were able to agree the Council's figures in the Group Accounts. We reviewed the consolidation of the accounts and the information from the subsidiary auditor. No issues arose from this work.</p> <p>The draft accounts were prepared on the basis that the balance sheet value of the investment should recognise the net assets of the subsidiaries. This valued the investment at £8.4m but was revised to £7.2 million implying an impairment of £6.7m should have been made against service costs. This has not been adjusted by management</p>	<p>We consider that the correct treatment is to include the value of the investment at cost and if appropriate, assess whether the value should be impaired.</p> <p>Since being formed, Bristol Energy has incurred losses indicating a need to consider impairing the value of this investment.</p>

FINANCIAL STATEMENTS

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the financial statements as a whole was set at £18.8 million. This was determined with reference to a benchmark of gross expenditure (of which it represents less than 2 per cent) which we consider to be one of the principal considerations for the Council in assessing the financial performance.

We agreed with the Audit Committee that we would report all individual audit differences in excess of £376,000.

AUDIT DIFFERENCES

Our audit found one material audit difference that was corrected in the financial statements as follows:

- Increase in the value of Council owned housing £225 million

In addition we identified a small number of differences not corrected in the final financial statements as follows:

- Property, plant and equipment value understated by £8.7 million (extrapolated error).
- Investment property value overstated by £10.3 million (extrapolated error)

The net impact of the unadjusted differences is £1.6 million overstatement of assets with no impact on income and expenditure.

We also bring to your attention the fact that the Council's investment in its subsidiaries is carried at £7.2 million and is calculated on the basis of the net asset value of the subsidiaries. The method employed to value the investment is not in line with accounting guidance but we are satisfied that the actual amount is materially correct. However, we would expect the difference between cost and valuation (£6.7m) to be a charge against expenditure in the year.

The City docks asset is currently not depreciated on the basis of its useful life being assessed at 100 years. Although the depreciation charge would not be material, the accumulated value will increase and therefore the Council should depreciate this asset in line with the other assets in its property portfolio.

The Council should consider reporting the maturity analysis within the liquidity risk disclosure (Note 25) on an undiscounted cash flow basis rather than at nominal value and the ex-Avon County debt held by the Council should be recognised within borrowings rather than within other long term liabilities.

We consider these uncorrected misstatements did not have a material impact on our opinion on the financial statements.

FINANCIAL STATEMENTS

OTHER MATTERS WE REPORT ON

Narrative report

The information given in the narrative report in the Statement of Accounts for the financial year was consistent with the financial statements.

Annual governance statement

The annual governance statement meets the disclosure requirements set out in the guidance ‘Delivering Good Governance in Local Government: Framework’ (2016 edition) published by CIPFA/SOLACE and was not misleading or inconsistent with other information that is forthcoming from the audit.

INTERNAL CONTROLS

We did not identify any significant deficiencies in internal controls during the course of our audit. A number of potential areas for improvement were identified which we have discussed with management.

WHOLE OF GOVERNMENT ACCOUNTS

Auditors are required to review Whole of Government Account (WGA) information prepared by component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding certain non-current assets); liabilities (excluding pension liabilities); income or expenditure.

We have commenced our review in accordance with the Group Audit Instructions issued by the National Audit Office. This requires that we compare the information in your Data Collection Tool (DCT) submission with the audited financial statements, undertake testing of completeness and accuracy of WGA counter party transactions and balances, and provide an assurance statement to the National Audit Office.

The work is currently in progress but we anticipate completing it shortly.

USE OF RESOURCES

CONCLUSION

We issued an adverse conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 29 September 2017.

SCOPE OF THE AUDIT OF USE OF RESOURCES

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources based on the following reporting criterion:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

As part of reaching our overall conclusion we consider the following sub criteria in our work: informed decision making, sustainable resource deployment, and working with partners and other third parties.

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
<p>The risk of sustainable finances was significant as the Council faces a major funding shortfall. In 2016/17, the Council set a budget which implied saving approximately £35 million from a total budget of approximately £346 million.</p> <p>During the year it became evident that the Council was not achieving the level of savings that were implied by its budget and the S151 officer reported to the Cabinet in January 2017 that (based on performance to 31 October 2016), the Council was forecasting an adverse variance against budget of approximately £17.8 million.</p> <p>The Council also received an independent report on its financial position, which has highlighted weaknesses in the development, management and reporting of its savings programmes.</p>	<p>We responded to this risk by reviewing the Council's financial strategy that had been prepared in February 2016 and assessed the outturn position. We also considered the Council's use of balances including the unplanned draw upon reserves to address the failure of the savings plan to deliver the savings implied within the 2016/17 budget.</p> <p>We also met with senior management and members to determine how the Council has developed its new medium term financial plan covering the period from 2017 to 2022 and considered the arrangements that have been put in place to address the funding shortfall that the Council faces.</p> <p>The Council's 2016/17 budget assumed delivery of a savings plan designed to deliver a reduction in net expenditure of £35.4 million. During the year, it became evident that the Council was not going to achieve its budget due to many of the planned savings appearing to be at risks and emerging services pressure primarily attributed to Social Care demand and pricing.</p> <p>In November 2016, the Interim Chief Executive issued a Management Instruction to cease all non-essential spending including any proposed expenditure that was not contractually committed or necessary to meet a legal requirement. The emergency measures did have some effect and the forecast deficit of £17.8 million (as at Period 7; October 2016) was reduced to the actual deficit of £10.5 million in 2016/17.</p> <p>The 2017/18 budget approved by the Council in February, contained proposals to invest and re-baseline directorate budgets to the total value of £45m. This budget, if achieved, will continue the process of establishing a sustainable position for 2017/18 and beyond.</p> <p>The Council has strengthened its internal financial reporting and in July 2017 issued a new Medium Term Financial Plan (MTFP) covering the period to 2022. The immediate challenge is for the Council to achieve savings of £33 million in 2017/18 and this target is supported by a list of savings proposals that have been approved by the Council and each item allocated to a senior manager who is accountable for delivering the savings proposal.</p> <p>In comparison with other local authorities that we audit, the Council does have reasonably strong balances. For example, the General Fund balance has been maintained at £20 million and also its useable HRA related reserves have been maintained at approximately £63 million. In overall terms, the Council's useable reserves (many of which are restricted in how they may be used) reduced significantly in 2016/17 by approximately £40 million to £203 million.</p> <p>Therefore while not an immediate matter for concern, given the pressures on costs combined with reduced levels of government grant, means that this area is under increasing pressure and it is important that net expenditure is brought into line with available funding.</p>	<p>In 2017/18, the Council has made reasonable progress towards achieving its savings target but at 30 June 2017, its routine financial monitoring report indicates that approximately £3 million of the 2017/18 planned savings are "at risk" and the Council is facing a shortfall of approximately £3 million against the £33 million target for the year. It is therefore evident, that more work needs to be done to strengthen the arrangements before they can be considered adequate.</p> <p>While the Council has made significant improvements to its financial planning in 2017, these improvements were not in place in the early part of 2016/17 and the Council still has a large gap to address to achieve a sustainable financial position.</p> <p>We have therefore concluded that arrangements were not adequate in this area throughout 2016/17 but also acknowledge that the arrangements have been subject to significant improvement in 2016/17 in order to address historic issues.</p>

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
<p>Our plan included a review of the Council's response to the Bundred report to ascertain whether appropriate action had been taken to address the weaknesses identified.</p> <p>We therefore added as a significant risk the need to ensure that Council members are appropriately informed, and with accurate information, to enable them to effectively oversee the savings programme.</p> <p>We have also considered how important areas such as the control of the Council's subsidiaries were also reflected in the information provided and assessed by members.</p>	<p>We responded to this risk by meeting with management and members, reviewing key documents including the 2017/18 savings plan approved by the Council and the arrangements in place to monitor progress against delivery of the savings in 2017/18.</p> <p>The Council was slow to appreciate that the savings programme of £35.4 million implied by the February 2016 MTFs and factored into the 2016/17 budget was not delivering the budgeted level of savings. There was therefore a six month period before the difficulties were fully appreciated by all members and it was not until January 2017 (when the figures for the seven month period to 30 October 2016 were reported) and a more accurate and detailed assessment of the position post planned mitigations was provided to all members.</p> <p>In February 2017, the Council received the independent report prepared in connection with the Review of the 2016/17 Forecast Deficit (the Bundred Report) and this contained many observations in connection with the original assessment of the achievability of the £35.4 savings plan and the management and governance arrangements in connection with the savings implied by the Council's 2016/17 budget. Recommendations were made designed to strengthen financial control arrangements and ensure that members are properly informed with accurate information on a regular and timely basis as all of these areas were identified as being in need of significant improvement. The Bundred report also recognised that a number of improvements had already been made.</p> <p>The Council accepted the Bundred Report and has taken further steps to address the matters raised. We note the significant improvements that have been implemented such as improved reporting, the decision making pathway for member engagement from idea to implementation and since January 2017 the introduction of a very senior group of staff and members who routinely assess performance against the Council's approved savings plan. In addition, a new medium term financial plan has been prepared, which was approved in July 2017 and was designed to ensure greater alignment of resources with strategic priorities and buy-in from senior managers with responsibility for delivering the budget.</p> <p>In addition, we have raised some issues about the Council's accounting for its subsidiaries on page 4. Energy supply is a complex and volatile business. We have some concerns that the risks around the Energy company, its governance arrangements and greater than expected losses were not understood fully by the Council in the early part of 2016/17. Greater involvement is required by the Audit Committee and internal audit to ensure arrangements are adequate.</p>	<p>We have concluded that arrangements for ensuring informed decision making were not adequate throughout the year and this is reflected in our conclusion on the Council's use of resources.</p>

APPENDIX

REPORTS ISSUED

We have issued the following reports since our previous annual audit letter.

REPORT	DATE
Audit plan	March 2017
Update to Audit Plan	June 2017
Audit completion report	September 2017
Annual audit letter	October 2017

FEES

We reported our original fee proposals in our audit plan to the Audit Committee in March 2017.

Our audit fee was subject to an increase to reflect costs associated with additional work necessary in a range of areas. These areas included an objection initially considered in our 2015/16 audit and relating to the Council’s borrowing through Lender Option Borrower Option or LOBOs, the valuation of the Council’s property, plant and equipment and for additional work in connection with the Council’s group accounts which needed to be prepared for the first time in 2016/17.

AUDIT AREA	FINAL FEES £	PLANNED FEES £
Council audit - scale fees	203,687	203,687
Council audit - additional fees	28,113	-
Total audit	231,800	203,687
Fees for non-audit services:		
Benefits grant claim	Tbc	20,427
DFT - major projects	tbc	5,000
Total non-audit services	tbc	25,427
TOTAL FEES	tbc	229,114

FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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BRISTOL CITY COUNCIL

AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2017
21 September 2017



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SUMMARY

AUDIT SCOPE AND OBJECTIVES	
Audit status	We have substantially completed our audit procedures in accordance with the planned scope and expect to provide our audit opinion before the statutory deadline of 30 th September, subject to resolution of matters set out in the outstanding matters section below.
Audit risks	<p>We issued our planning report to the Audit Committee in March 2017 and this document contained our initial assessment of the risks that were relevant to the audit.</p> <p>Subsequent to issuing the March 2017 Audit Committee planning document we revised our risk assessment and added the risk of Informed Decision Making and which is part of our use of resources work.</p> <p>We also elevated the risks relating to valuations of property plant and equipment and the valuation of the pensions liability from “normal” risks to “significant” risks. These changes were reported to the June Audit Committee.</p>
Materiality	Our final materiality was calculated at £18.8 million and was calculated using the Council’s gross expenditure for 2016/17.
Changes to audit approach	There were no significant changes to our planned audit approach nor were any restrictions placed on our audit.

KEY AUDIT AND ACCOUNTING MATTERS	
Material misstatements	No material misstatements identified by our work remain.
Adjusted misstatements	<p>Our audit identified significant errors in connection with the valuation of the Council’s housing stock which needed to be corrected by management. Management corrected the draft accounts presented for audit in June for the impact of the errors we identified in the valuation used for the Council housing stock which, as in previous years, had been valued at 1 April 2016; however, with the uplift in property values in the region within 2016/17 these should have been revalued using 31 March 2017 values. The significant increase in property prices in Bristol during 2016/17 has meant that the upward movement created an error of approximately £400 million that needed to be corrected.</p> <p>A number of other less significant adjustments needed to be made and these are set out in Appendix 1 and a few presentational changes were agreed during the audit process.</p>
Unadjusted audit differences	<p>The Council did not adjust for two non-material differences that were calculated by extrapolating an error identified within a sample of assets held at fair value at 1 April 2016 which would have resulted in an increase in valuation of £8.7 million if valued at 31 March 2017. In addition, the second adjustment would have led to a reduction in the value of investment properties and the amount would have been £10.3 million.</p> <p>The Council holds an investment in various wholly owned subsidiaries and the increase in the scale of these entities required the preparation of Group Accounts as well as the “single entity” Council accounts. The initial carrying value of the investment in the single entity accounts amounted to £8.4 million (subsequently adjusted to £7.2 million) based on the value of the net assets of the subsidiaries. We believe that the correct treatment is to</p>

KEY AUDIT AND ACCOUNTING MATTERS

	<p>measure the investment at cost (£15.9 million at 31 March 2017) and then perform an impairment assessment if there are signs that the value should be reduced. In addition, it should be held as an investment rather than an available for sale asset.</p> <p>While we recognise that it is very difficult to perform an accurate impairment assessment, there is a risk that the value is overstated. We discussed this matter with management and also sought specialist valuation support from within BDO. We have been able to confirm that the valuation of the investment in the subsidiaries is materially correct and set out more detail on page 14 and appendix 1 of this document.</p>
Control environment	<p>The errors identified in the valuation process indicate that attention needs to be paid to ensuring correct valuations are in place by year end particularly when property values are in a period of significant change.</p> <p>The importance of ensuring accurate information is available promptly at year end is emphasised by the move to a faster accounts close in 2017/18 where the deadline for issuing the audit opinion will be brought forward to 31 July 2018.</p> <p>We have also raised some control points on the severance package awarded to the City Director in 2016/17.</p>

SUMMARY

KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES

Sustainable Finances	<p>In February 2014, the Council approved the medium term financial strategy covering the period from April 2014 to March 2017 and 2016/17 represented the third and final year of the approved three year framework.</p> <p>At the beginning of the year, the Council had a savings target against the Change Programme of £34.7m, which included £15.2 million of undelivered savings carried forward from 2015/16. A range of management and strategic activities were undertaken which resulted in savings being delivered but not at the level implied by the 2016/17 budget and in overall terms a deficit of approximately £10.5 million against budget was incurred.</p> <p>Consistent with many local authorities significant pressures are present within Social Care, largely attributed to the increase in client numbers, complexity of need, demand for Council services and higher than expected market pricing (eg year-end overspend in the People directorate of £13.9m).</p> <p>In January 2017, a moratorium / spending freeze was introduced on non- essential, statutory or grant funded activity to seek to contain the pressure within available resources without the need for draw down from the Council's emergency general fund reserve. The Council ended the 2016/17 financial year with an overarching general fund overspend of £10.5m. The ability to re-designate some earmarked reserves meant that no call was made on the General fund balance, which remained at £20m and represents approximately 5% of net revenue spending.</p> <p>To help ensure that the financial position remains sustainable throughout the medium term, the Council has acted to strengthen its arrangements. In particular, we note the progress made in implementing the Delivery Executive Group comprising the Mayor, the Chief Executive, the Director of Finance and the Deputy Mayor to oversee the transition. This has been an important step in overseeing the financial position as the savings target for 2017/18 has been agreed at £33.1 million with further savings proposals with an aggregate value of £29 million identified for the four year period to 31 March 2022.</p> <p>It is clear that appropriate arrangements were not in place at the start of 2016/17, as evidenced by the large overspend that emerged in the year. Also, despite the steps being taken, the Council's financial position remains very challenging, as evidenced by £3m of savings targets being viewed as 'at risk' in the first quarter of 2017/18.</p> <p>We have therefore qualified our opinion in respect of sustainable finances.</p>
Informed decision making	<p>The Bundred report commissioned by the Mayor and published in February 2017 concluded that the Council's arrangements for monitoring its financial position, including reporting to Members, had not been adequate in the early part of 2016/17. The inadequacy of the arrangements was a key factor in the failure to fully appreciate the Council's financial position was significantly adverse compared to budget until several months into 2016/17.</p> <p>In line with the Council's agreed reporting cycle, quarterly budget monitoring reports were produced with the first quarter report being considered by Cabinet in September 2016. The report clearly outlined the seriousness of the General Fund financial position of £29.1m forecast outturn deficit; provided detailed, explanations and proposed a series of work streams for consideration in addressing the shortfall. The month 7 report (covering the period to 30 October 2016 and presented to Cabinet in January 2017) identified a small reduction in the variance (down to £27.5 million).</p>

KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES

	<p>The frequency of budget monitoring reporting to Cabinet was increased to monthly and the style, content and depth has continued to be reviewed and enhanced. Governance and due diligence was increased around the savings programme and this simultaneously has been subject to continuous review and improvements implemented where appropriate.</p> <p>We note the steps taken to improve the arrangements and believe that significant improvements have been made. However, it is also clear that acceptable arrangements were not in place throughout 2016/17 and accordingly our audit opinion has been qualified.</p>
Governance of Council subsidiaries	<p>The companies group structure (Bristol Energy, Bristol Waste Company, both subsidiaries of Bristol Holding Ltd) were established during 2015 with a Board of Directors, Independent Chair, Non-Executive Directors and with the Council being represented on each board. The Council has a 100% shareholding in the group, and the Shareholder representative, for the purpose of making decisions reserved to the Shareholder is the elected Mayor of Bristol. The Mayor is supported in his decision making by a small Shareholder Advisory Group. Independent Shareholder Advisors have been commissioned to provide timely advice on how the governance arrangements for the group could be improved.</p> <p>Bristol Energy opened for business in 2016 and operates in a commercial and volatile marketplace. Energy supply is a complex business and it is in its start-up phase of acquiring and retaining customers whilst maintaining social purpose and as such will always be subject to external influences and risks. Following inception the market had changed and as a result greater than expected losses would be incurred. An assessment was undertaken of the current and forecasted position and impact reflected in the first annual Business case refresh. As the companies grow steps have been taken to improve the governance and quality of performance reports. The business plan was revised to reflect in-year and forecasted conditions and increased investment required from the Council as it develops and grows its market share and brand.</p> <p>Given all of the points above external consultants have also been commissioned to provide financial and commercial advice to optimise value in the delivery of the Council's investment and ensure that the Council achieves the best value for money outcome.</p> <p>We have discussed with management how the decline in value of its investments should be reflected in the accounts and have raised ways in which governance of the companies can be improved, for example through greater scrutiny by the Audit Committee and internal audit. We have reflected these points in our opinion on informed decision making.</p>

AUDIT OPINION

Financial statements	Subject to the successful resolution of outstanding matters set out on page 8, which are largely procedural, we anticipate issuing an unmodified opinion on the financial statements for the year ended 31 March 2017.
Annual governance statement	We have no exceptions to report in relation to the consistency of the Annual Governance Statement with the financial statements or our knowledge.
Use of resources	We anticipate issuing an adverse opinion on the use of resources for the year ended 31 March 2017.

AUDIT OPINION

The basis for the adverse audit opinion is that the Council did not have proper arrangements in place for making informed decision making throughout 2016/17 and particularly the early part of the year. There was a failure to inform the elected members that the Council's net expenditure was significantly higher than budgeted and an accurate position was not made available until more than six months of 2016/17 had elapsed.

The Council approved its 2016/17 budget which included provision for achieving a savings plan of £35 million and which was not achieved and the Council incurred a deficit of £10.7 million. We also have some concerns over the financial performance of the energy company owned by the Council.

We note the considerable progress that has been made to address the position and also the development of a new medium term plan which was finalised in July 2017 and covers the period to 2022. There is also now much greater stability in the senior management team, with permanent appointments in place for the key roles of Chief Executive and Director of Finance.

We are satisfied that Members now receive regular, detailed budget reports that provide information on progress, variance against plans and corrective action already underway or planned. This approach provides members with the opportunity to scrutinise and challenge financial performance effectively and to hold lead members and officers to account.

However, we have concluded that despite the significant steps taken in the latter part of 2016/17, the Council did not have proper arrangements in place covering both sustainable finances and informed decision making which represent the reasons why it is necessary to issue an adverse opinion in respect of these matters and an overall qualification on the Council's use of resources.

OTHER MATTERS FOR THE ATTENTION OF THE AUDIT COMMITTEE

Whole of Government Accounts (WGA)	We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the financial statements.
Legality and objections	We are not minded to uphold the objection from 2015/16 on the Council's LOBO (Lender Option Borrower Option) arrangements, as the Council appears to have acted legally and within its Treasury Management guidelines when taking out the LOBOs.
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix IV.
Audit certificate	We will issue our audit certificate after we have completed our work on the financial statements, use of resources and whole of government accounts.

INTRODUCTION

PURPOSE AND USE OF THIS REPORT

We present our Audit Completion Report to the Audit Committee, which details the key findings arising from the audit for the attention of those charged with governance. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process.

As auditors we are responsible for performing our audit in accordance with International Standards on Auditing (UK & Ireland) which provide us with a framework which enables us to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and use of resources. As the purpose of the audit is for us to express an opinion on the financial statements and use of resources, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

This report has been prepared solely for the use of the Audit Committee. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

AUDIT QUALITY

BDO is committed to delivering audit quality. It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. BDO welcome feedback from external bodies and is committed to implementing necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US firms), the firm undertake a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our latest Transparency Report at www.bdo.co.uk.

OUTSTANDING MATTERS

We have substantially completed our audit work for the year ended 31 March 2017, and anticipate issuing unmodified opinions on the financial statements and use of resources. The following matters are outstanding at the date of this report.

We will update you on their current status at the Audit Committee meeting at which this report is considered:

1 Completion of our work in connection with the property assets that have been revalued

2 Internal quality control review process

3 Subsequent events review

4 Final review and approval of the financial statements

5 Management representation letter, as attached in Appendix VI, to be approved and signed

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT RISKS

We assessed the following matters as audit risks as identified in our Planning Report issued in March 2017 and the subsequent update to our audit plan communicated to the Audit Committee in June 2017. This update included the rationale for elevating the risk of valuations of property, plant and equipment (including investment properties) and valuation of pension assets and liabilities to significant. In our update, we also identified the risk of Informed Decision Making as a significant risk following an independent review commissioned by the Council in October 2016 and which reported in February 2017 when it became evident that the Council was facing a substantial budget deficit in 2016/17 that was not communicated to members until after several months of 2016/17 had elapsed.

Below we set out how these risks have been addressed and the outcomes of our procedures.

Key: ■ Significant risk ■ Normal risk

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
1 ■ Management override of controls	<p>Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p>	<p>Our response to this risk included:</p> <ul style="list-style-type: none"> • testing a sample of journal entries and other adjustments recorded in the general ledger to prepare the financial statements • reviewing accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud • obtaining an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual. 	<p>Our audit work in relation to journals has not identified any significant issues.</p> <p>We have not found any indication of management bias in accounting estimates.</p> <p>No unusual or transactions outside of the normal course of business were identified.</p>

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
2	Revenue recognition	Under auditing Standards there is a presumption that income recognition presents a fraud risk. In particular, we consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance and / or conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).	No issues arising from this work.
3	Financial Pressures	The Council is experiencing a very difficult financial position due to budget pressures and difficulty in achieving its previous savings plans. It is forecasting a deficit for 2016/17. The Council has approved a revision to its Minimum Revenue Provision (MRP) calculation and in 2016/17 will calculate the MRP using a different basis from that used in 2015/16. Councils do have discretion in selecting the basis for calculating its MRP with an overriding requirement to ensure a prudent approach.	We focused on the significant estimates and judgements that could influence the Council's financial position at year end. In particular, estimates and judgements that impact materially upon the Council's general fund balance, such as use of provisions, were subject to increased scepticism. We reviewed and challenged the basis for calculating the MRP and assessed the approach adopted by the Council.

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
4 Land, buildings, dwellings and investment property valuations	<p>Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date.</p> <p>The Council operates a rolling valuation programme to ensure that all properties are valued at least every five years.</p> <p>We consider there to be a risk over the valuation of land buildings, dwellings and investment properties where valuations are based on market assumptions or where updated valuations have not be provided for a class of assets at the year-end.</p>	<p>We reviewed the instructions provided to the valuer and confirmed the valuer's qualifications and experience in order to determine whether we could rely on the management expert.</p> <p>We will review the valuation performed and test a sample of assets to confirm the valuation has been correctly accounted for.</p>	<p>From our review of the instructions provided to the valuer and assessment of the expertise of the valuer, we are satisfied that we can rely on this work.</p> <p>The valuations for housing properties were performed at 1 April 2016 and not at the year end. If house prices in Bristol had been reasonably static, this would not have led to a material error in the accounts. However, Bristol housing property increased significantly in 2016/17 and therefore the valuation needed to be updated to reflect values at 31 March 2017.</p> <p>The revised valuation has been used to prepare the Council's accounts and the draft accounts that were previously approved and placed on the Council's website have been corrected.</p> <p>The impact of this adjustment has been to increase the balance sheet value of the Council's housing by approximately £400 million. There is also an impact on the 2015/16 accounts, as the same method has been used in previous years, resulting in a prior year adjustment.</p> <p>For the sample of PPE assets and investment properties reviewed we are satisfied that the basis of the valuation for each asset is appropriate and that the revaluation movements have been correctly accounted for and we are near to concluding our work in this area.</p>

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
5 Pension liability assumptions	<p>The Council's pension liability comprises the Council's share of the market value of assets held in the Avon Pension Fund less the estimated future liability to pay pensions.</p> <p>The pension fund liability is calculated by actuaries with specialist knowledge and experience. The calculation uses membership data held by the pension fund and uses factors such as mortality rates and expected future pay rises to calculate the liability.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions.</p>	<p>We agreed the disclosures to the information provided by the pension fund actuary.</p> <p>We requested assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.</p> <p>We reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.</p>	<p>We did not identify any issues regarding the accuracy of the disclosures in the financial statements or the accuracy and completeness of data provided by the fund to the actuary.</p> <p>We obtained confirmation from the Pension Fund auditor about aspects of the valuation of the pension fund assets and liabilities.</p>

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
6 Changes in presentation of the financial statements	<p>The Code requires a change to the presentation of some areas of the financial statements. This includes:</p> <ul style="list-style-type: none"> change to the format of the Comprehensive income and Expenditure Statement (CIES) change to the format of the Movement in Reserves Statement new Expenditure and Funding Analysis (EFA) note change to the Segmental Reporting note new Expenditure and Income analysis note. <p>These changes will required a restatement to the 2015/16 CIES.</p>	<p>We reviewed the draft financial statements and checked these against the CIPFA Disclosure Checklist to ensure that all of the required presentational changes have been correctly reflected within the financial statements.</p>	<p>We confirm that the analysis by service in the CIES is consistent with the internal reporting within the Council.</p> <p>We reviewed the restatement of the comparative 2015/16 information to ensure that it was presented consistently with the current year basis.</p>
7 Consideration of related party transactions	<p>We need to consider if the disclosures in the financial statements concerning related party transactions are complete and accurate, and in line with the requirements of the accounting standards.</p>	<p>We will test related party transactions and review relevant information concerning any such identified transactions.</p> <p>We will discuss with management and review councillors and Senior Management declarations to ensure there are no potential related party transactions which have not been disclosed. This is also an area we will require you to include in your management representation letter to us.</p>	<p>No issues arising from this work.</p>

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
8 Group Accounts	<p>The Council has interests in a range of different external organisations including some wholly owned subsidiaries.</p> <p>In 2015/16 these were not sufficiently material to require the Council to prepare Group Accounts. In 2016/17, the scale of the transactions and the size of the investment increased to the extent that they became a material element of the Council's operations and required the preparation of Group Accounts to consolidate the accounts of its subsidiaries.</p>	<p>We reviewed and challenged the paper that is prepared by management to support the approach for accounting for the Council's subsidiaries.</p> <p>We obtained information from the auditor of the subsidiaries to enable us to confirm that the auditor was independent of the subsidiaries and that we could rely on their work. We received audited accounts for each subsidiary that we were able to agree the Council's figures in the Group Accounts.</p>	<p>The draft accounts were prepared on the basis that the balance sheet value of the investment should recognise the net assets of the subsidiaries. This valued the investment at £8.4m but has subsequently been revised to £7.2 million.</p> <p>We consider that the correct treatment is to include the value of the investment at cost and if appropriate, assess whether the value should be impaired.</p> <p>Since being formed, Bristol Energy has incurred significant losses and therefore these losses indicate the potential need to impair the value of this investment.</p> <p>We have set out more detail about this valuation in Appendix 1.</p>
9 Non-domestic rates appeals provision	<p>The Council is required to estimate the value of potential refund of business rates arising from rate appeals, including backdated appeals. The Valuation Office Agency (VOA) provides information regarding the appeals currently being assessed and settled.</p> <p>We consider there to be a risk in relation to the estimation of the provision due to potential incomplete data and assumptions used in calculating the likely success rate of appeals.</p>	<p>We reviewed the assumptions used in the preparation of the estimate including the historic success rates to confirm if the rates applied are appropriate.</p> <p>We monitored progress with the potential rate relief claims from NHS organisations and the potential impact on the collection fund account.</p>	<p>No issues arising.</p>

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA		RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
10	Allowances for non-collection of receivables	The estimate is based on the aged debtors listing for each type of debtor. The provisions are calculated based on a percentage of debt by age for each kind of debt. However recovery percentages are based on past collection rates and other experience i.e. those debts which are traditionally very difficult to collect are assigned a higher provision rate. If recovery rates go down, then provision may not be high enough.	We reviewed the provision for significant income streams and debtor balances to assess whether it appropriately reflected historical collection rates by age of debt or arrears.	We identified no issues with this balance.

KEY AUDIT AND ACCOUNTING MATTERS

OTHER ISSUES

We comment below on other issues identified in the course of our audit, of which we believe you should be aware:

AUDIT AREA	AUDIT FINDINGS
11 Lender Option, Borrower Option (LOBOs) loans	<p>On 26 July 2016 we received an objection from an elector relating to the Council taking out £130m of LOBOs between 2004 and 2012. The wording of the objection was consistent with those sent to other Councils in 2016/17 and questioned the legality and value for money of the transactions. This is because the Lender Option Borrower Option loan rates, while attractive initially, can be increased by the lender at specific intervals, although the borrower can repay the debt at that point. Legal advice has been provided to one of the audit suppliers, which we are unable to share, that indicates LOBOs should be treated as a variable loan and not a fixed loan. The advice also states that Councils are within their powers to take out LOBOs.</p> <p>In addressing this issue we have sought to assess whether the Council has complied with its Treasury Management policy (including limits on variable debt), has adequately assessed and reported the risks of the loans and that it has reviewed whether the loans represent value for money. Our work has been hampered by the age of some of the loans, which mean that some original documentation is not available and also delays by the Council in responding to our queries. We have now been able to conclude the following:</p> <ul style="list-style-type: none">• The Council did not breach its Treasury Management guidelines for the period we have been able to review, ie the last 7 years. The limit on variable debt was 30% of total debt and LOBOs (and other variable debt) was lower than 30% each year• There has been regular reporting to Members on borrowing risks and the nature of LOBO debt was explained to Members. This could have been documented more clearly in the papers, with some sensitivity analysis. We have not been able to confirm what was reported in 2004 and 2005, which represents 50% of the total debt.• The Council has provided a briefing to Members, with supporting analysis that shows it has saved £5.5m in interest payments as a result of taking out the LOBOs. Therefore value for money appears to have been achieved. <p>Overall, we have concluded that there is sufficient evidence not to uphold the objection and we will be writing to the elector accordingly. This is subject to review by the National Audit Office and its legal advisors. We do recommend that a more detailed risk assessment and sensitivity analysis is performed in future if loans of this nature are entered into. Once we have approval from the NAO we will be able to issue the completion certificate on the 2015/16 audit. This will refer to prior year adjustments that have been made in 2016/17 that relate to the 2015/16 year.</p>

OTHER REPORTING MATTERS

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

MATTER	COMMENT
12	<p>The draft financial statements, within the Statement of Accounts, were prepared and provided to us for audit in accordance with a pre-agreed timetable and by 31 May.</p> <p>As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit.</p> <p>The deadline for the Council to approve place its draft accounts was 30 June 2017 but this deadline will be brought forward to 31 May in 2018.</p> <p>The audit deadline for the 2017/18 accounts will also be brought forward to 31 July 2018. This compares to the deadline of 30 September 2017 for the current (2016/17) audit.</p> <p>To help prepare for the accelerated timetable that will be in place next year, we agreed with management to take the opportunity to bring forward elements of the 2016/17 fieldwork. In particular, management identified a target date of 31 May 2017 for preparing the draft accounts and early date for preparing the draft accounts was met.</p> <p>We identified some issues with the accounts in connection with the valuations of housing properties that meant that the revaluation needed to be re-performed and therefore delayed our audit work. The original valuation (based on 1 April 2016 values) was materially incorrect because house prices in Bristol have increased significantly and this therefore affected the valuation for the Council's housing stock.</p> <p>In addition, the Council's interests in its subsidiaries were deemed to be material for the 2016/17 accounts (in 2015/16 they had been calculated to be immaterial) and this meant that the Council needed to prepare Group Accounts consolidating the results of the subsidiaries as well as the accounts for the Council as a single entity.</p> <p>The requirement to prepare Group Accounts required both the Council and BDO to obtain detailed information direct from the subsidiaries and also their auditor. This identified a number of issues which caused delays. It is hoped that having now effectively gone through the process in 2016/17, the requirements from all parties are much clearer and will speed up the process in 2017/18.</p>

MATTER		COMMENT
13	We are required to review the draft Annual Governance Statement and be satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council’s review of effectiveness and our knowledge of the Council.	We have no matters to report.
14	We are required to read all the financial and non-financial information in the Narrative Report to the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.	We have no matters to report.

CONTROL ENVIRONMENT

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you.

As the purpose of the audit is for us to express an opinion on the Council's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

SIGNIFICANT DEFICIENCIES (NB: significant by profile)

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
Chief Executive salary and severance payment	<p>The City Director, who left the Council at the end of July 2016, was made Chief Executive of Bristol 2015 Ltd during the year and paid for the role, without any impact on her Council salary. These were exceptional circumstances and the Council took legal advice before agreeing the role. The Council believed that she was still able to fulfil her role at the Council but in our view it would have been advisable to take account of the impact on her available time and potentially net the additional sum from her Council salary.</p> <p>The Council took legal advice on the severance payment to the City Director, which is good practice and value for money appears to have been adequately considered. We confirmed that no years were added to the pension. However, it would have been good practice to present a fuller report to Members of the HR Committee on the costs of the package and any other options available.</p>	The Council has not acted unreasonably in its approach to these sensitive issues. However, the Council should ensure it follows best practice in its governance arrangements, including payments made to senior staff.	<p>Where a senior member of staff takes on additional roles with other organisations, the impact on their existing roles should be assessed and the implications for their Council salary considered.</p> <p>When presenting information on severance arrangements for senior staff, the Council should ensure that the appropriate Committee is given sufficient detail on the costs and alternative options, while taking into account confidentiality requirements.</p> <p>More detailed guidance is provided in the Audit Commission report: By Mutual Agreement - Severance Payments to Council Chief Executives</p>	<p>The Council adopts the principles outlined in the Joint Negotiating Committee (JNC) for Chief Officers of Local Authorities, model procedures and non-contractual payments e.g. Ex gratia, severance referred to the Human Resources Committee for consideration.</p> <p>The matters referred to here are of an exceptional and sensitive nature and as such the Council's response is limited.</p> <p>The Council sought appropriate legal advice on all counts which informed the approach adopted and negotiations regarding the severance package.</p>

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

MATTER	COMMENT	
15	<p>For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Authority for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level.</p> <p>This work requires checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.</p>	<p>Local authorities’ were required to submit the unaudited DCT to HM Treasury and auditors by 7 July 2017 and our review of the Council’s WGA Data Collection Tool (DCT) is in progress.</p> <p>We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the Council’s financial statements.</p> <p>We expect to issue our opinion on the consistency of the DCT return with the audited financial statements before the 29 September 2017 statutory deadline.</p>

USE OF RESOURCES

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money). This is based on the following reporting criterion:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

There are three sub criteria that we consider as part of our overall risk assessment:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

We reported our risk assessment, which included use of resources significant risks, in the 2016/17 Audit Plan that was presented to the Audit Committee in issued in March earlier this year. Subsequently, we performed a more detailed assessment and in June 2017 prepared an update report for the Audit Committee in June 2017 that set out the areas that had been revised since our initial risk assessment. The changes included elevating the risks around land and property valuations from normal risk to significant and also introducing the risk of Informed Decision Making as a new significant audit risk.

We report below our findings of the work designed to address these significant risks and any other relevant use of resources work undertaken.

Key: ■ Significant risk ■ Normal risk

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
1	Sustainable finances	<p>We identified the risk of sustainable finances as a significant risk and the need for the Council to address a major funding shortfall. The funding shortfall to 2020 had been set out in the Council's February 2016 Medium Term Financial Strategy (MTFS) and which identified a savings programme generating a £35.4 million reduction in 2016/17 net expenditure.</p> <p>For 2016/17, the Council set a budget with a net spend (i.e. expenditure net of income) of approximately £346 million. The budget implied significant reductions in costs in many areas as part of a Corporate Plan designed to ensure that costs are managed within forecast reductions in grant income and demand pressures.</p> <p>During the year it became evident that the Council was not achieving the level of savings that were implied by its budget and the S151 officer reported to the Cabinet in January 2017 that (based on performance to 31 October 2016), the Council was forecasting an adverse variance against budget of approximately £17.8 million.</p> <p>The Council has also received an independent report on its financial position, which has highlighted weaknesses in the development, management and reporting of its savings programmes.</p> <p>In addressing this risk we reviewed the MTFS that had been prepared in February 2016 and assessed the outturn position. We have also considered the Council's use of balances including the unplanned draw upon reserves to address the failure of the savings plan to deliver the savings implied within the 2016/17 budget.</p> <p>We have also met with senior management to determine how the Council has developed its new medium term financial plan covering the period from 2017 to 2022 and considered the arrangements that have been put in place to address the funding shortfall that the Council faces.</p>	<p>The Council's 2016/17 budget assumed delivery of a savings plan designed to deliver a reduction in net expenditure of £35.4 million. During the year, it became evident that the Council was not going to achieve its budget due to many of the planned savings appearing to be at risks and emerging services pressure primarily attributed to Social Care demand and pricing.</p> <p>In November 2016, the Interim Chief Executive issued a Management Instruction to cease all non-essential spending including any proposed expenditure that was not contractually committed or necessary to meet a legal requirement. The emergency measures did have some effect and the forecast deficit of £17.8 million (as at Period 7; October 2016) was reduced to the actual deficit of £10.5 million in 2016/17.</p> <p>The 2017/18 budget approved by the Council in February, contained proposals to invest and re-baseline directorate budgets to the total value of £45m. This budget, if achieved, will continue the process of establishing a sustainable position for 2017/18 and beyond.</p> <p>In comparison with other local authorities that we audit, the Council does have reasonably strong balances. For example, the General Fund balance has been maintained at £20 million and also its useable HRA related reserves have been maintained at approximately £63 million. In overall terms, the Council's useable reserves (many of which are restricted in how they may be used) reduced significantly in 2016/17 by approximately £40 million to £203 million.</p> <p>Therefore while not an immediate matter for concern, given the pressures on costs combined with reduced levels of government grant, means that this area is under increasing pressure and it is important that net expenditure is brought into line with available funding.</p> <p>The Council has strengthened its internal financial reporting and in July 2017 issued a new Medium Term Financial Plan (MTFP) covering the period to 2022. The immediate challenge is for the Council to achieve savings of £33 million in</p>

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
<div>Sustainable finances (continued)</div>		<p>2017/18 and this target is supported by a list of savings proposals that have been approved by the Council and each item allocated to a senior manager who is accountable for delivering the savings proposal.</p> <p>In 2017/18, the Council has made reasonable progress towards achieving its savings target but at 30 June 2017, its routine financial monitoring report indicates that approximately £3 million of the 2017/18 planned savings are “at risk” and the Council is facing a shortfall of approximately £3 million against the £33 million target for the year. It is therefore evident, that more work needs to be done to strengthen the arrangements before they can be considered adequate.</p> <p>While the Council has made significant improvements to its financial planning in 2017, these improvements were not in place in the early part of 2016/17 and the Council still has a large gap to address to achieve a sustainable financial position.</p> <p>We have therefore concluded that arrangements were not adequate in this area throughout 2016/17 but also acknowledge that the arrangements have been subject to significant improvement in 2016/17 in order to address historic issues.</p>

2	Informed decision making	<p>In our Audit Plan, we identified the risk of sustainable finances as a significant risk. In particular, the need for the Council to address a funding shortfall is a major task and increases the pressure that will arise when making judgements about estimates that will need to be included in the accounts.</p> <p>We had already planned to review the Council's response to the Bundred report and ascertain whether appropriate action has been taken to address the weaknesses identified in respect of the savings plan. We have added as a significant risk the need to ensure that Council members are appropriately informed, and with accurate information, to enable them to effectively oversee the savings programme.</p> <p>To assess the arrangements, we met with management and members, reviewed key documents including the 2017/18 savings plan approved by the Council and the arrangements in place to monitor progress against delivery of the savings in 2017/18.</p> <p>We have also considered how important areas such as the control of the Council's subsidiaries were also reflected in the information provided and assessed by members.</p> <p>The Council was slow to appreciate that the savings programme of £35.4 million implied by the February 2016 MTFS and factored into the 2016/17 budget was not delivering the budgeted level of savings. There was therefore a six month period before the difficulties were fully appreciated by all members and it was not until January 2017 (when the figures for the seven month period to 30 October 2016 were reported) and a more accurate and detailed assessment of the position post planned mitigations was provided to all members.</p> <p>In February 2017, the Council received the independent report prepared in connection with the Review of the 2016/17 Forecast Deficit (the Bundred Report) and this contained many observations in connection with the original assessment of the achievability of the £35.4 savings plan and the management and governance arrangements in connection with the savings implied by the Council's 2016/17 budget. Recommendations were made designed to strengthen financial control arrangements and ensure that members are properly informed with accurate information on a regular and timely basis as all of these areas were identified as being in need of significant improvement. The Bundred report also recognised that a number of improvements had already been made.</p> <p>The Council accepted the Bundred Report and has taken further steps to address the matters raised. We note the significant improvements that have been implemented such as improved reporting, the decision making pathway for member engagement from idea to implementation and since January 2017 the introduction of a very senior group of staff and members who routinely assess performance against the Council's approved savings plan. In addition, a new medium term financial plan has been prepared, which was approved in July 2017 and was designed to ensure greater alignment of resources with strategic priorities and buy-in from senior managers with responsibility for delivering the budget and members to the Council's budget principles.</p> <p>We have concluded that arrangements for ensuring informed decision making were not adequate throughout the year and this is reflected in our conclusion on the Council's use of resources.</p>
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RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
<p>3 Governance arrangements for the Council's subsidiaries.</p>	<p>The Council has recently created Bristol Holding Limited (BHL), a company which has two wholly owned subsidiaries, Bristol Waste Company (BHC) and Bristol Energy & Technology Services (Supply) Limited (BEL). We considered the scale of the companies for the purposes of preparing Group Accounts as part of our 2015/16 audit and also considered the disclosure from a related party transactions disclosure perspective.</p> <p>The scale of the companies was planned to increase and therefore the financial performance of the companies will increase in importance.</p> <p>As forecast, the scale of the subsidiaries (in aggregate) increased to the point where the amounts involved became material to the Council's accounts and group accounts needed to be prepared (see our comments in the section in Key Auditing and Accounting Matters for comments in connection with this area).</p> <p>From a governance perspective, we discussed with management the arrangements in place which include the three companies being the subject of monitoring arrangements overseen by a shareholder group reporting to the Mayor. In addition, each of the three subsidiaries provides a signed letter to provide assurance regarding internal governance for the Council's Annual Governance Statement.</p>	<p>The Council has created shareholder group to oversee the investment that it has made in its three subsidiaries, manage matters reserved to the shareholder and it meets regularly to monitor performance of these entities.</p> <p>From a financial perspective, Bristol Waste has performed profitably since incorporation in 2015 and at 31 March 2017 had delivered profits of approximately £2 million per annum in its first two years of trading and which was reasonably in-line with the Company's business plan.</p> <p>Bristol Energy has not performed in line with its original 2015 business plan. Losses have been incurred in both of its first two years of operation and these losses have significantly exceeded the amounts implied by the 2015 Business Plan. The 2015 business plan also showed the Company making annual profits from 2018/19.</p> <p>The business plan for Bristol Energy was updated in November 2016 to reflect the more difficult trading environment that the Company was experiencing. The new business plan contained a forecast that showed the Company will continue to make losses beyond 2018/19.</p> <p>We reviewed minutes of the shareholder group meetings and also the annual governance statements prepared. We are satisfied that the arrangements are now appropriate although the need to significantly revise the business plan for BEL is a concern.</p> <p>Energy supply is a complex and volatile business. We have some concerns that the risks around the Energy company, its governance arrangements and greater than expected losses were not understood fully by the Council in the early part of 2016/17. Greater involvement is required by the Audit Committee and internal audit to ensure arrangements are adequate.</p> <p>Independent Advisors and external consultants have been commissioned to provide advice on how the governance arrangements for the Group could be improved and financial and commercial advice to optimise value in the delivery of the Council's investment and ensure that the Council achieves the best value for money outcome.</p>

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
4	Partnerships	The Council continues to work with external partners and works closely with several including NHS Bristol CCG. As with any partnership arrangements there are risks around governance and control and value for money.	The Council continues to participate with many external organisations and working with others is a key element of the Council’s strategy. We have not identified any issues in this area.

APPENDICES

APPENDIX I: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Audit Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, and in aggregate, on the financial statements.

ADJUSTED AUDIT DIFFERENCES.

We identified the following material misstatements in the draft financial statements, which management has amended:

- Corrected valuation of Council housing which increased the valuation at 31 March 2017 by more than £400 million
- Corrected Investment Property valuation of £5.3 million.
- Investments in subsidiaries reduced to £7.2 million from £8.4 million.
- Debtors reclassification of £3 million (transfer within debtors)
- Reclassification of Local Authority Mortgage scheme asset as a short term investment instead of as a debtor.

UNADJUSTED AUDIT DIFFERENCES

There are two unadjusted audit differences identified by our audit work as follows:

- Property, plant and equipment value understated by £8.7 million (extrapolated error).
- Investment property value overstated by £10.3 million (extrapolated error)

The net impact of the unadjusted differences is £1.6 million overstatement of assets with no impact on income and expenditure.

We also bring to your attention the fact that the Council's investment in its subsidiaries is carried at £7.2 million and which is calculated on the basis of the net asset value of the subsidiaries. The method employed to value the investment is not in line with accounting guidance but we are satisfied that the actual amount is materially correct.

You consider these unadjusted differences to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement however we also request that you correct them even though not material.

PRIOR YEAR ERRORS CORRECTED

In our updated risk assessment we elevated the audit risk around valuations and this identified an issue with the Council's housing property valuation and which is referred to above. This also affected the 2015/16 accounts where the previous valuation of £893 million needed to be increased to £1,227 million and affected the Council's 31 March 2016 balance sheet.

The Council's investment in Bristol Port was also corrected to be held at cost of £2.5 million as there was judged to be no reliable basis for accurately valuing the market value of the shareholding (previously it had been held at a percentage of net assets of the Company and the 31 March 2016 value carried at £23.7 million).

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

We have identified recommendations from our use of resources work and also identified a small number of controls related issues that are set out in the tables below.

Use of Resources	
Recommendation	Management Comment
The 2017/18 year to date financial monitoring arrangements indicate that the Council has an adverse budget variance of approximately £3 million at 30 June 2017. This variance therefore indicates that more needs to be done to strengthen the budgetary control arrangements. Accordingly, this area must remain an area of key focus.	The Council has improved its financial monitoring and control arrangements, and this includes regular reporting to Members of overall financial performance, identification of new and emerging financial risks and progress in delivery of agreed Council efficiencies. Executive budget scrutiny arrangements are in place to ensure, where services are facing budget pressures and forecasting overspends then appropriate mitigations are identified at service, directorate and Council wide levels. Detailed benefits realisation processes are in place to ensure delivery of savings and these are regularly challenged by the Executive and Scrutiny.
The arrangements that the Council has developed to ensure clear and effective financial monitoring should kept under review. Feedback from the different member groups should be obtained to ensure that the reports provide the information that is needed in an appropriate format.	To date we have received positive feedback on the format and content of the monitoring reports from Members. However we continue to take feedback and review reports to ensure the format remains appropriate.
The oversight arrangements for the subsidiaries, including the role of the Council's Audit Committee in overseeing the subsidiaries, should be reviewed. In particular, the Audit Committee needs to have oversight of these operations which are increasing in scale and complexity. Internal Audit should also include within its remit the review of the Council's subsidiaries activities.	The Council is currently undertaking a review of its governance arrangements of its trading subsidiaries which will ensure the appropriate oversight of the use of public funds

Controls related areas		OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
The process for deleting access rights for staff who leave the Council's employment needs to be made clearer.	Potential unauthorised access	Access rights to IT systems need to be removed for leavers.	Accepted. There is a leavers process that disables an employee or contractors account and access to Council IT system. However, we acknowledge that awareness and input to this process could and should be made clearer.		Ian Gale - Head of IT Service	Nov 2017
This recommendation is applicable to many of the Council's applications.						

Controls related areas		OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
For the Selima application, there is a need to strengthen the arrangements for approving and signing off changes to access to the system.	Potential inappropriate access by staff	Formalise the change arrangements and ensure approvals are held on file.	<p>Access to the system is based on template user profiles attached to each post, these are based on the post creation form provided to HR Systems by managers which requires sign off from HR and finance business partners and details the security preferences of the post.</p> <p>There are exceptional circumstances when an employee needs a variation of access, this can be due to additional duties covering another role eg. An employee is in their substantive post but they are required to do additional duties so need additional access to be able to fulfil those duties.</p> <p>Actions :</p> <ul style="list-style-type: none"> confirm process for giving existing users access including covering additional tasks/amendment to post(s). Record changes/amends to existing access with an end date, where appropriate. Withdraw access if no further approval/update received by HR Systems to change extend change/amend 		Lorraine Howells	Nov 2017

APPENDIX III: MATERIALITY

MATERIALITY - FINAL AND PLANNING		
	FINAL	PLANNING
Materiality	£18.8 million	£19.1 million
Clearly trivial threshold	£376,000	£382,000

APPENDIX IV: INDEPENDENCE

We confirm that the firm complies with the Financial Reporting Council's Ethical Standards for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement lead and audit staff is not impaired. These policies include engagement lead and manager rotation, for which rotation is required after 5 years and 10 years respectively. No member of your audit team has worked on this audit for more than two years.

We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Council.

We have set out in Appendix V full details of the fees that in connection with our appointment. Other than fees in connection with our statutory appointment which is regulated by PSAA, other fees relate to audit related services such as the certification of grant claims and auditor certification of returns such as the Teachers' Pensions Contributions statutory return. We have not identified any potential threats to our independence as auditors.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

APPENDIX V: FEES SCHEDULE

	2016/17 FINAL PROPOSED £	2016/17 PLANNED £	EXPLANATION FOR VARIANCES
Code audit fee	£231,800	£203,687	LOBOs, Group Accounts and additional work on valuations which have required additional work. This includes a fee of £10,000 for the objection in LOBO's which was agreed in 2015/16
Housing benefits subsidy claim	£20,427	£20,427	Fee estimate only as work is in progress
TOTAL AUDIT AND CERTIFICATION FEES	£252,227	£224,114	
Reporting on government grants:			
• Other			
Fees for other non-audit services			
NON-AUDIT ASSURANCE SERVICES	nil	nil	
TOTAL ASSURANCE SERVICES	£252,227	£224,114	

APPENDIX VI: DRAFT REPRESENTATION LETTER

TO BE TYPED ON CLIENT HEADED PAPER

BDO LLP
Bridgewater House
Counterslip
Bristol
BS1 6BX

..... September 2017

Dear Sirs

Financial statements of Bristol City Council for the year ended 31 March 2017

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2017 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Director of Finance has fulfilled her responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and Statement of responsibilities of auditors and of audited bodies: local government issued by Public Sector Audit Appointments (PSAA), and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2017 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and for making accurate representations to you.

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

APPENDIX VI: DRAFT REPRESENTATION LETTER

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with international financial reporting standards and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving councillors, management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by councillors, employees, former employees, regulators or any other party.

We attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements.

APPENDIX VI: DRAFT REPRESENTATION LETTER

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

We confirm that the above representations are made on the basis of enquiries of councillors, management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

[Name]
[Title]

<Chief Finance Officer>
[date]

[Name]
[Title]
Signed on behalf of the <Audit Committee>
[date]

FOR MORE INFORMATION:

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Engagement lead

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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Audit Committee

23rd November 2017



Report of: Interim Chief Internal Auditor

Title: Internal Audit Half-Year Activity Report for the period of 1st April to 31st October 2017

Ward: N/A

Officer Presenting Report: Jonathan Idle – Interim Chief Internal Auditor

Contact Telephone Number: 0117 92 22452

Recommendation

The Audit Committee note the Internal Audit Activity for the period of 1st April to 31st October 2017.

Summary

This Activity Report provides the Committee with an accumulative summary view of the work undertaken by Internal Audit in the period of 1st April to 31st October 2017, 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, the Internal Audit recommendation implementation rate for the period, and as with the previous Activity Report, enhanced reporting in terms of individual summaries for a number of audit reviews completed in the period. This is the third planned activity report for the municipal year of 2017/18.

Significant Matters Arising:

- Key messages arising from this report at Section 2 of Appendix A;
- Update on Audit Plan Progress, including Additions, Amendments and Deletions to the Plan, paragraph 3.1 and Section 5 of Appendix A
- Status of the Council Control Framework, based in IA work to date, Paragraph 3.2 and Section 5 of Appendix A
- Recommendation implementation rate, paragraph 3.3 of Appendix A
- Value of Grants Certified by the Service in the period, paragraph 3.4 of Appendix A
- Resources within Internal Audit, paragraph 3.6 of Appendix A
- Summaries of completed Internal Audit reviews - Appended to Appendix A



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 third of the IA Activity reports to the Audit Committee, marking the half-way point in the work plan year. The Activity reports 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 an accumulative quarterly basis covering all of the IA activities, with the exception of the November Audit Committee where a separate Fraud and Irregularity Activity report will be provided. The Activity reports are 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, in terms of the control framework within the Council;
- Present the assurance work completed and in progress by the Internal Audit team during the period, together with the conclusions we have drawn from that work.
- Update the Committee on the Internal Audit recommendations implementation rate.
- Spotlight audit review outcomes, both positive and negative, to management and the Audit Committee for their consideration and action, where appropriate.

This Third 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:

- 50% of completed Audit Reviews have concluded limited or no level of assurance; highlighting a further decline in the control framework on previous years;
- Audit Plan – reductions in planned audit reviews to be agreed in order to compensate for significant level of resources diverted to ad hoc requests and also reduced resources;
- 22 grants with a total value of £23.7m certified to date;
- Risk Management improvement process faltering, due to insufficient resources;
- Recommendation implementation rate currently at 94% implemented or partially implemented, however follow-up coverage is falling significantly behind due to resourcing issues;
- Pro-active fraud/irregularity Activity Update is provided to the Audit Committee in a separate half-year report.

4. Proposal

4.1 The Audit Committee considers the accumulative work of the Internal Audit Team (IA), during the period of 1st April to 31st October 2017, 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 period of 1st April to 31st October 2017

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:

None.



BRISTOL INTERNAL AUDIT

APPENDIX A

INTERNAL AUDIT HALF-YEAR ACTIVITY REPORT FOR THE PERIOD OF April to October 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 half-year 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 period of 1st April to 31st October 2017, building on the information which was provided to the Committee at its meeting in September 2017, and thereby allowing the Committee to track the progress of Internal Audit work through the year.
- 1.4 Additionally, the report provides an update on the Assurance Audit plan and any changes thereof, as well as updates in the following areas:
 - Amendments and deletions to the 2017/18 Internal Audit Plan
 - Summaries of completed audit reviews
 - Internal Audit Resources, as required by the Public Sector Internal Audit Standards (PSIAS)
 - Grant certification
 - Recommendation Implementation status
 - An update on the Risk Management process
- 1.5 The full detail of all of the Internal Audit work completed or in progress in the period 1st April to 20th October 2017, is provided at Section 5 of this report.

2. Key Messages

- Audit Plan – reductions in planned audit reviews to be agreed in order to compensate for significant level of resources diverted to ad hoc requests and also reduced resources;
- 50 % of completed Audit Reviews have limited or no level of assurance;
- Recommendation implementation rate currently at 94% implemented or partially implemented, however follow-up coverage is falling significantly behind due to resourcing issues;
- 22 grants with a total value of £23.7m certified to date;
- Risk Management improvement process faltering, due to insufficient resources;
- Pro-active fraud/irregularity Activity Update is provided to the Audit Committee in a separate half-year report.

3. Updates

3.1 Annual Risk Based Assurance Plan Status:

The status of the planned work either completed or in progress, for the period 1st April to the 31st October 2017, is provided in Section 5 below. However, table (1) below provides details of the planned audit reviews which are proposed for either removal or amendment in order to address the shortfall in audit days currently being experienced by the service.

The reason for this shortfall is two-fold in that, the service has seen a reduction in the permanent workforce, and it has received a high number of ad-hoc work requests. The collective impact of these issues has resulted in the need for the service to re-evaluate the audit plan, and put forward a number of audit reviews for possible deletion or amendment of scope in order to reduce the days required.

Table (1) Risk Based Plan amendments:

No.	Reasonable Assurance Area	Assignment	Addition	Amendment	Deletion
1	Information Security/ICT	Operations Centre – Resilience and Security	✓		
2	Information Security/ICT	Digital Strategy	✓		
3	Information Security/ICT	Plans for Enterprise Architecture	✓		
4	Information Security/ICT	Citizen Account	✓		
5	Fraud Prevention	Fraud Awareness Induction	✓		
6	Information Security/ICT	Mobile Device Security Follow up	✓		
7	Information Security/ICT	DLP Security	✓		
8	Risk Management	Risk Based Review – Safer Recruitment – Children and Families Care & Support	✓		
9	Fraud - Prevention	CIPFA Counter Fraud Benchmarking/Assessment Review	✓		
10	Governance	Ethics and Culture		✓	
11	Governance	Partnership Governance		✓	
12	Risk Management	Risk Based Reviews - Major Project Delivery Overview (PPP Board) Merge with the work on Capital Board		✓	
13	Information Security/ICT	Data Protection Breaches – will be covered as part of GDPR review		✓	
14	Information Security/ICT	PSN Compliance will also cover key Cyber risks.		✓	
15	Information Security/ICT	Focus for IT Asset Management review will be on the response to matters already identified in this area.		✓	
16	Commissioning and Procurement	Monitoring of Contracts – themed audit review.		✓	
17	Commissioning and Procurement	Contracts Register and publication requirements		✓	
18	Governance	Corporate Strategy Delivery - Planning and Performance Indicators - Process remains			✓

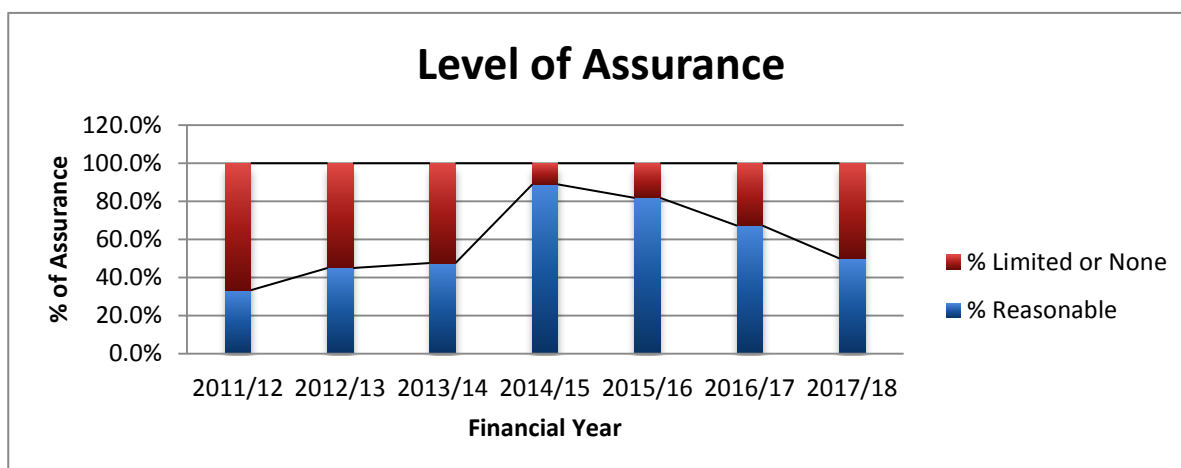
No.	Reasonable Assurance Area	Assignment	Addition	Amendment	Deletion
		under development			
19	Governance	Schemes of Delegation - allow time for revised SOD to bed in.			✓
20	Governance	Capital Programme Board Effectiveness. (follow up) Merged with major project delivery.			✓
21	Governance	WECA/Devolution Governance Understanding Awareness for IA			✓
22	Risk Management	Risk Based Reviews - Finance Team Transformation and governance (work ongoing)			✓
23	Risk Management	Risk Based reviews - homelessness - holistic approach to risk of increasing demand whilst subsidy reducing (C/F to 18/19)			✓
24	Risk Management	Risk Based reviews - preparedness for HB subsidy reduction			✓
25	Financial Controls	IR 35 Compliance (off payroll costs - incl. monitoring by payment approval process) remove due to strategic needs.			✓
26	Financial Controls	Bristol Futures Team/Operations (Section no longer in existence)			✓
27	Financial Controls	Balance Sheet Reconciliations (specific commission no longer required)			✓
28	Financial Controls	Schools Payroll (Not required at this time)			✓
29	Financial Controls	Directorate Budgetary Control bf/follow up			✓
30	Financial Controls	Local Taxation Collection (Cover 18/19)			✓
31	Commissioning and Procurement	Continual Audit - Credit and Procurement Cards - covered in Purchase card review			✓
32	Information Security/ICT	E Procurement System controls (cover 18/19)			✓
33	Information Security/ICT	ICT Contract Management (Not required at this time by Internal Audit)			✓
34	Information Security/ICT	Cloud Based Storage Systems (limited use so not required at this time)			✓
35	Information Security/ICT	IT Strategy and Capacity to Delivery (Covered in Digital strategy work and Enterprise Architecture work)			✓
36	HR and Asset Management	My Performance - Compliance and effectiveness (Process currently under review)			✓
37	Projects and Programmes	Savings trackers for Transformation Programme (covered in another assignment)			✓
38	Fraud - Strategic	Annual Fraud Survey - TEICAFF			✓
39	Fraud - Prevention	Schools - Fraud Awareness Training			✓
40	Fraud Detection	Schools Admissions (Not required at this time)			✓

Work on the 2017/18 Assurance plan is progressing, but at a less expedient pace than the service would have hoped, due to matters as discussed above. As at 20th October 2017, 36% of the risk based assurance plan was either complete, or in progress, with a further 11% at the early planning stages, whereby a Terms of Reference is either being drafted or has been agreed. The Internal Audit target percentage for plan completion at this point of the year is 40%, therefore delivery is currently under target. Additionally, it should be noted that this target and output does not reflect the grant certification and ad-hoc work undertaken, nor the re-active response work that is currently underway.

The plan amendments as detailed in table (1) above and in Appendix 1 to this report, will reduce the resource requirement by approximately 3.5 full-time equivalent posts for six months, but at the same time will provide for the minimum coverage required in order for the Chief Internal Auditor to provide an informed annual opinion on the status of the Control, Risk and Governance environment within the Council in 2017/18. However, resources are now so restricted that any significant additional ad-hoc work, including grant certifications, or any further long-term sickness will have an impact on our ability to provide the annual opinion.

3.2 Status of Control Framework within the Council:

At this half-way point in the financial year, only limited assurance can be given that the Council's control framework is adequate, with 50% of risk based assurance reviews completed concluding either limited or no level of assurance. This highlights a further decline in the control framework on previous years, as demonstrated by figure (1) below:



Whilst a percentage of our risk based work is as a result of requests to review areas where there are pre-existing issues, the higher percentage of the work completed to date this year is as part of the Internal Audit risk based plan, therefore this decline in the level of assurance that can be derived from the audit reviews is of concern. Internal Audit is working with Directorate Leadership Teams to ensure that recommendations made as a result of an Internal Audit review are expediently implemented in order to achieve improvements in the control framework.

3.3 Recommendation Implementation:

Internal Audit continue to work with management to improve the implementation of Internal Audit recommendations, including the provision of quarterly monitoring reports on the status of recommendation follow-up work by Internal Audit with the number of recommendations made as a result of an audit review, together with details of the number implemented, partially implemented and not implemented.

Internal Audit will follow up recommendations until they are implemented, therefore where it is concluded that a recommendation has either been partially implemented or not implemented at all, the follow up process will continue until full implementation has been achieved.

An analysis of the implementation of recommendations, based upon completed follow up reviews, is summarised in Table 2 below. The table includes a percentage implementation rate which will be regularly reported to the Committee. For the 9 concluded audits followed up in this period, there was a 94% implemented or partially implemented rate. A significant number follow up reviews are to be undertaken in the remainder of 2017/18 and updates will be provided to members at each Audit Committee.

Table1: Summary of Implementation of Internal Audit Recommendations:

Follow-Up Audit	Total Recs	Implemented	Partially Implemented	Not Implemented
Bank Reconciliations	8	2 (25%)	6 (75%)	0
VAT	9	3 (33%)	5 (56%)	1 (11%)
Business Continuity Planning	10	5(50%)	5 (50%)	0
Housing Rents	14	9 (64%)	3 (21%)	2 (14%)
Leisure Centre Contract	3	2 (67%)	1 (33%)	0
Deprivation of Liberty Assessments (Adults)	4	2 (50%)	2 (50%)	0
Compass Point South Street Primary School	10	6 (60%)	2 (20%)	2 (20%)
Customer Relations System	8	1(12%)	7(88%)	0
Housing Benefits	11	1 (9%)	10(91%)	0
Total	77	31 (40 %)	41(54 %)	5 (6%)

Full details of the status of the Follow Up plan is provided in Section 5 of this report.

3.4 Grant Certification:

To date in 2017/18, Internal Audit has audited and certified 22 grant claims to the value of approximately £23.7m; and 8,400 Euros, with a further grant certifications nearing completion.

Recommendations have been made to the services' administering the grants for improvements to the grant administration process, where appropriate. Section 5 below, provides details of the grants certified in the period.

3.5 Risk Management Update:

Work on risk management has been limited in the period since the last Activity report, due to the matters as discussed in paragraph 3.1 above. However, further consultation following an organisation wide survey (previously reported), on the key risks that should be recorded in the Corporate Risk Register was undertaken with the Extended Leadership Team early in October 2017. The results of this consultation are reported in a separate agenda item.

The need to identify a dedicated resource to take risk management forward remains outstanding, although options are currently being considered to bring in additional resources.

3.6 Resources:

As discussed in paragraph 3.1 above, the Service continues to be functioning on reduced resources, which is further impacted by a level of long term sickness. This limitation is not only effecting the assurance and irregularity work, but also the risk and governance work the service currently complete on behalf of the Council. A review of the knowledge and skills required by the Service is scheduled to be completed in quarters three and four, once that work has been finished, the Service will then look to fill any gaps by recruiting the required knowledge and skills.

In the intervening period, following a competitive procurement process, a dedicated ICT Audit resource has been sourced from a neighbouring authority. This additional resource was included in the Annual Plan for 2017/18.

4. Under the Spotlight!



With each activity report, IA turns the spotlight on the audit reviews not just where the residual level of risk was considered to be 'Red or Amber', but also where the governance and controls in the area reviewed were considered to be good, providing the Audit Committee with a summary of the objectives of the review, the key findings, conclusions and recommendations; thereby giving the Committee the opportunity to explore the areas further, should it wish to do so.

In this period, the following report summaries are provided at Appendix 2, for the Committee's information and discussion:

- General Data Protection Regulations (GDPR) Readiness Review
- Data Loss Prevention Security
- Neighbourhoods Budgetary Control
- Foster Care Payments & Budgetary Control
- Early Years Funding
- Green Deal Community Grant Review
- Accounts Receivable

There are also Appendices to this report which contains exempt information.

5. Status of Internal Audit Work for the Period of: (1st April to 31st October 2017)

Risk Based Assurance Plan:

Audit Plan			Stage of Review				Outcome		Recommendations			Summary of Findings:
Directorate	Gov, Risk or Internal Control Area	Name of Review	Initial Planning/TOR	In Prog/ Ongoing	Draft Report	Complete	Assurance Level	Risk Level	High	Medium	Low	Key Issues arising from the Report
Corporate	Information Security/ICT	Data Protection Compliance (new regulations) - GDPR - Readiness - 1 of 2 reviews (20 in total). Urgent Issues Report issued 29/9/17				✓	None	Purple				Urgent Issues notice issued to relevant parties including new Project Lead. Please see summary at Appendix (1)
People	Internal Control	b/f Foster Care Payments				✓	Limited	Red	2	1		Please see summary at Appendix (1)
Resources	Projects and Programmes	HR/Payroll - New System Implementation				✓	Limited	Red	Lessons Learned for future projects			Please see summary at Appendix (1)
Corporate	Governance	Bristol is Open				✓	Limited	Red	8	7		Please see summary at Appendix (1)
Resources	Financial Controls	Accounts Receivable				✓	Limited	Amber	2	9	0	Please see summary at Appendix (1)
Corporate	Commissioning and Procurement	Purchase Card Review				✓	Limited	Amber	6	4	0	No overall responsibility, leavers cards not cancelled, card holders not validated, supporting docs not held.
Resources	Information Security/ICT	DLP Security				✓	Limited	Amber	5	3	1	Please see summary at Appendix (1)
Place	Financial Controls	Security Services (Cash In Transit)				✓	Reasonable	Amber	0	6	2	Ageing equipment that could impact on bus continuity
Neighbourhoods	Financial Controls	NNDR Collection b/f				✓	Reasonable	Amber	1	7	0	Same person raising and authorising write offs
Neighbourhoods	Governance	b/f Budgetary Control Neighbourhoods				✓	Reasonable	Amber	0	7	0	Please see summary at Appendix (1)
Neighbourhoods	Internal Control	Catering Service - Audit Compliance				✓	N/A	Amber		14		Compliance review, providing guidance. Main issues - Poor control, staff changes, outdated technology
Neighbourhoods	Fraud - Detection	Tied Properties				✓	Reasonable	Green				No sub-letting found, some residential addresses being used for storage and community rooms - raised with Estates.
Corporate	Fraud - Strategic	Annual Fraud Survey - CIPFA				✓	N/A	N/A				
Corporate	Fraud - Strategic	Open Data Reporting re Fraud (Transparency Code)				✓	N/A	N/A				
Corporate	Fraud - Prevention	CIPFA Counter Fraud Benchmarking				✓	N/A	N/A				
Neighbourhoods	HR and Asset Management	Housing Stock - Void Management			✓							
Resources	Financial Controls	Chaps System - control and accounting (to include FASTER payment system)			✓							
Resources	Commissioning and Procurement	Cash Receipting System Contract Management			✓							
Corporate	Commissioning and Procurement	Continual Audit - Contract Waivers		✓								
Resources	Financial Controls	Bank Reconciliation/E Income Returns		✓								
Resources	Financial Controls	Payroll System Controls		✓								
Resources	Financial Controls	Accounts Payable Controls		✓								
Neighbourhoods	Fraud - Detection	Housing Benefit Fraud - DWP Liaison		✓								
Neighbourhoods	Fraud - Detection	Council Tax Reduction		✓								
Resources	Fraud - Detection	Fiscal Fraud Module Review		✓								
Corporate	Fraud - Investigation	Fraud Hotline		✓								
Corporate	Fraud - Investigation	GAIN/Police Enquiries		✓								
Neighbourhoods	Fraud - Investigation	Residual Benefit Fraud Prosecution Cases		✓								
Corporate	Fraud - Prevention	Fraud Web page review and fraud warning bulletins		✓								
Corporate	Fraud - Prevention	Fraud Awareness Induction		✓								
Corporate	Fraud - Prevention	CIPFA Counter Fraud Assessment Review		✓								
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		✓								
Corporate	Fraud - Strategic	Fraud Recording and Reporting		✓								
Corporate	Governance	AGS Review - Periodical updates and annual collation		✓								

Corporate	Governance	Code of Governance Review		✓								
Corporate	Governance	Business Case - Robustness and Delivery		✓								
Corporate	Governance	Web Page Control - ensuring governance policies etc routinely available		✓								
Neighbourhoods	Governance	Memorandum Of Understanding between BCC and DWP		✓								
Resources	HR and Asset Management	Employment Status and right to work		✓								
Corporate	Information Security/ICT	Operations Centre - Readiness		✓								
Corporate	Risk Management	Embedding Risk Management		✓								
People	Financial Controls	Follow up on DoL assessments and procedural review re: adults.	✓									
Corporate	Governance	Transformation Programme Governance and IA continual involvement and Governance review	✓									
Corporate	Governance	Transparency and quality of Decision Making reports	✓									
Corporate	Governance	Ethics and Culture ? (Not at all or limited scope - Validation of Tracker evidence)	✓									
Place	HR and Asset Management	Investment Property Portfolio in BCC	✓									
Corporate	Information Security/ICT	Technology- Data & Digital Strategy.	✓									
Corporate	Risk Management	Risk register scrutiny arrangements and effectiveness	✓									Policy has changed requirements
Neighbourhoods	Risk Management	Risk Based reviews - homelessness - holistic approach to risk of increasing demand whilst subsidy reducing (C/F to 18/19)	✓									
People	Risk Management	Risk Based Reviews - People - Provider Failure	✓									
People	Risk Management	Risk Based Review - Fitness for purpose of 3 Tier Model	✓									
People	Risk Management	Safer Recruitment - Children and Families Care and Support	✓									

Grant Certification Plan:

Directorate	Gov, Risk or Internal Control Area	Name of Review	Initial Planning/TOR	In Prog/Ongoing	Complete	Value of Grant Claim	Assurance Level	Risk Level	Summary of Findings:
Corporate	Governance	IBB - Investing in Bath and Bristol - 2015/16 (Review work of BDO Certification). Two reports issued - 1 specific to 15/16 claim 1 concerning overall administration of claim.			✓	£938,876	None	Red	2 errors on disbursement of grant corrected
Corporate	Governance	IBB - Investing in Bath and Bristol - 2016/17 (31 July 2017)			✓	£998,464	Partial	Amber	
Neighbourhoods	Governance	Scambusters Grant - NTS Funding Grant Sub-Grant 2016/7 - Trading Standards Institute			✓	£339,270	Reasonable	Green	
People	Governance	AGS Grant 16-17			✓	£27,410	Reasonable	Green	
Place	Governance	Cattle Market Road - Demolition LEP Grant 2016/17			✓	£278,231	Reasonable	Green	
Place	Governance	Cattle Market Road LEP Grant 2017/18 Q1			✓	£95,019	Reasonable	Green	
Place	Governance	CRC Energy Efficiency Scheme Review and Certification			✓	N/A	Reasonable	Green	

People/A&S Police	Governance	Troubled Families - July - Employment Claim			✓	N/A Verification of Families being assisted	Reasonable	Green	
People/A&S Police	Governance	Troubled Families - September main claim			✓	N/A Verification of Families being	Reasonable	Green	
Place	Governance	EDF TQEZ - Infrastructure Package - Monitoring of Job Outputs			✓	N/A	Reasonable	Green	
Place	Governance	EDF TQEZ - Infrastructure			✓	£1,936,043	Reasonable	Green	
Place	Governance	EDF TQEZ - Programme Team			✓	£500,000	Reasonable	Green	
place	Governance	LEP/WECA -Sustainable transport subregional projects			✓	£1,900,000	Reasonable	Green	
Place	Governance	PCN Penalty Charge Notice certification x2			✓	N/A	Reasonable	Green	
Place	Governance	TQEZ - WoE Economic Development Fund 15/16			✓	£500,000	Reasonable	Green	
People/ Resources	Governance	SFVS Return			✓	N/A Certification that Returns have been completed.	Reasonable	Green	
	Governance	West of England- AGE - Apprenticeship Grant for Employers			✓	£126,000	Reasonable	Green	
Place	Governance	A403 Challenge Fund Project due 30/9/17			✓	£12,700,000	Reasonable	Green	
Place	Governance	Local Growth Fund (LGF) Capital 2016/17 (Douglas Sole)			✓	£963,889	Reasonable	Green	
People/A&S Police	Governance	Troubled Families - October - Employment Claim			✓	N/A Verification of Families being assisted	N/A	N/A	
Chief Executive	Governance	URBACT III Jacob Dunkley due 15 September			✓	8,404.30 Euro	Reasonable	Green	
Neighbourhoods	Governance	Disability Facilities Grant - 30 September - Peter Bee		✓		£2,400,000	Reasonable		
Accumulative Amount Certified in the Period:						£23,703,202			

Schools Financial Governance Plan:

Audit Plan			Stage of Review			Outcome		Recommendations			Summary of Findings:
Directorate	Gov, Risk or Internal Control Area	Name of Review	Initial Planning/TOR	In Prog/Ongoing	Complete	Assurance Level	Risk Level	High	Medium	Low	Key Issues arising from the Report
People	Internal Control	Bristol Hospital Education Service b/f			✓	Reasonable	Green	1	8	4	DP registration and policy, evidence of budget monitoring,
People		St Mary Redcliffe Primary School			✓	Reasonable	Green		3		Retrospective orders, reconciliation of dinner money,
People	Internal Control	Bristol Gateway Special School		✓					3	1	Retrospective orders, school funds, leases
People	Internal Control	Woodstock Special School		✓				2	9		Retrospective orders, separation of duties, declaration of interests, school funds, inventories, school funds, leases
People	Governance	School Funds Audit Certs - Ongoing		✓							
People	Governance	SFVS....ongoing		✓							
People	Risk	Redcliffe Nursery	✓								

Risk Management Improvements:

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

Corporate	Risk Management	Embedding Risk Management		✓					
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Recommendation Follow-Up Plan Status:

Plan			Review Stage:				Revised Outcome:		Status of Followed up Recommendations:			Comments:
Directorate	Gov, Risk or Internal Control Area	Name of Review	No. of Recs. Not yet due F/Up.	No. Of Recs. Due for F/Up	In Progress	Complete	Revised Assurance Level	Revised Risk Level	Implemented	Partially Implemented	Not Implemented	Key Issues arising from the Report
Neighbourhoods	Internal Control	Housing Rents (Follow-Up)		14		✓	Reasonable	Amber	9	3	2	
People	Fraud - Prevention	Direct Payment - Follow up review		26								
Resources (Fin.)	Internal Control	VAT		9	✓				3	5	1	
Resources (Fin.)	Internal Control	General Ledger - Journal Movements		16	✓							
Resources	Governance	Recruitment & Selection DBS Checks		10	✓							
Resources	Governance	Declarations of Business Interests		4	✓							
People	Governance/Internal Control	Compass Point Primary School		10	✓				6	2	2	Ongoing implementation being pursued
People	Internal Control	Deprivation of Liberty Assessments (Adults)		4	✓				2	2		Resolution to backlog of DoLP currently being sourced.
Neighbourhoods	Internal Control	Leisure Centre Contracts		4	✓				2	1		Awaiting final evidence
Neighbourhoods	Internal Control	Housing Benefits			✓				1	10		
Corporate Matters	Risk	Business Continuity		10	✓				5	5		Further follow up to be carried out as part of full review.
Resources	Internal Control	PSN Compliance and Network Security		13	✓							
People	Governance/Internal Control	SS Peter & Paul Primary School		6								
People	Governance/Internal Control	Badocks Wood Children Centre		12								
People	Governance	HR Process Review		4								
Place	Governance/Internal Control	Sale and Disposal of Council Assets, including St Agnes Lodge and POB		16								
Corporate Matters	Governance	Customer Relations System Complaints/Compliments	9		✓				1	7		Initial follow up completed, further follow up scheduled for Q4.
Resources	Internal Control	Website Resilience	28									
Resources	Internal Control	Cyber Security	10									
People	Internal Control	Budgetary Control (People)	15									
Resources	Financial Controls	Accounts Receivable	11									Non compliance to Care Act and increasing aged debt
Place	Financial Controls	Security Services (Cash In Transit)	11									Ageing equipment that could impact on bus continuity
Neighbourhoods	Financial Controls	NNDR Collection b/f	10									
Corporate	Commissioning and Procurement	Purchase Card Review	13									No overall responsibility, leavers cards not cancelled, card holders not validated, supporting
Neighbourhoods	Governance	b/f Budgetary Control Neighbourhoods	7									Misleading reporting to members. Inadequate budget monitoring.
Neighbourhoods	Internal Control	Catering Service - Audit Compliance	14									
Resources	Information Security/ICT	DLP Security	9									
People	Internal control	b/f Foster care payments	3									
			140	158					20	32	3	

Ad-Hoc Work Requests			Stage of Review				Outcome		Recommendations			Summary of Findings:
Directorate	Gov, Risk or Internal Control Area	Name of Review	Initial Planning/TOR	In Prog/Ongoing	Draft Report	Complete	Assurance Level	Risk Level	High	Medium	Low	Key Issues arising from the Report
Place	Risk and Internal Control	Contract procurement process				✓	None	Red				Please see Appendix (1) to report.
Resources	Governance	Holding Companies cons/rec and Corp Gov.				✓	N/A	N/A				
Place	Governance	Sale of property Issues-St Agnes				✓	N/A	N/A		3		Formalisation of panel process
Place	Governance	Sale of the Port of Bristol				✓	N/A	N/A		4		Good Practice guidance provided
People	Governance	Early Years Funding				✓	N/A	N/A		4		Please see Appendix (1) to report
Resources	Governance	Insurance Tender				✓	N/A	N/A	4	4		Please see Appendix (1) to report
Resources	Governance	b/f Financial Regulations			✓							
Corporate	Governance & Fraud	Purchase Card Review (extended scope)			✓							

Corporate	Governance	Anonymous Allegations		✓								
Resources/ Place	Governance	Green Deal Grant		✓								
Place	Internal Control	Duplicate Cheques		✓								
Neighborhoods	Risk and Internal Control	Housing Voids		✓								
People	Governance	Education Capital Investment Reports Review	✓									

Internal Audit Plan
2017/18

Key:		Proposed for deletion from the plan
		Proposed for amendment on the plan
		Addition to the existing Plan

Appendix 1

Assurance Area

Corporate or Cross Directorate Reviews		Resources Directorate Specific		People Directorate Specific		Place Directorate Specific		Neighbourhoods Directorate Specific	
Governance									
Annual Governance Statement and Review - Quarterly Governance Dashboard plus annual review									
Code of Governance Review						Capital Programme Board Effectiveness. (follow up)			
West of England Combined Authority /Devolution Governance Understanding - watching brief									
Corporate Strategy Delivery - Planning and Performance Indicators									
Trading Company - Client expectation monitoring and code compliance									
Transformation Programme Governance and Audit continual involvement and Governance review									
Transparency and quality of decision making reports									
Business Cases - Robustness and Delivery									
Ethics and Culture									
Partnership Governance									
Schemes of Delegation									
Whistleblowing Policy									
Members Declarations of Interest									
Web Page Control - ensuring governance policies etc routinely available									
Complaint Systems									
Risk Management									
Policy, Co-ordination, Facilitation		Risk Based Reviews - Business Continuity - non system issues		Risk Based Reviews - Savings delivery		Risk Based Reviews - Major Project Delivery Overview & Capital Programme Management		Risk Based Reviews - response repairs	
Embedding Risk Management		Risk Based Reviews - Finance Team transformation and governance		Risk Based Reviews - Adult Care - Provider Failure				Risk Based Reviews - homelessness - holistic approach to risk of increasing demand whilst subsidy reducing	
Corporate Risk Register - Alignment to Corporate Strategy				Risk Based Review - Fitness for purpose of 3 Tier Model				Risk Based Reviews - preparedness for HB subsidy reduction	
Risk register scrutiny arrangements and effectiveness				Safer Recruitment - Children & Families Care and Support					
Risk Based Reviews - Business continuity									
Internal Control									
Financial Controls									
IR 35 Compliance (off payroll costs - incl monitoring by payment approval process)		Chaps System - control and accounting		Adult Care - Bad Debt		Parking Income		Housing Rents (follow up)	
Monitoring and reporting of budget position and transformation programme savings delivery		Bank Reconciliation		Billing of care services to those in home - deep dive (bf)		Security Services (Cash In Transit)		Housing Benefit Overpayment	

Certifications (Grants and other) as required		Payroll System Controls		Directorate Budgetary control - follow up and use of Management information in forecasting.	Directorate Budgetary Control	Directorate Budgetary Control b/f/follow up. Deferred to (Q1 18/19)	
Grant Awarding Processes (including EU grants)		Accounts Payable Controls		School Financial Governance			
Bristol Futures		Accounts Receivable		DoL Assessments & Procedural Review re: Adults		NNDR Collection b/f	
		Directorate Budgetary Control		Schools Payroll		Local Taxation Collection (Defer to 18/19)	
		Balance Sheet Reconciliations					
Commissioning and Procurement							
Contract Monitoring (Themed Review across all Directorates.		Monitoring of Contracts		Monitoring of Contracts	Monitoring of Contracts	Monitoring of Contracts	
Continual Audit - Contract management- renewals and awards (Themed review across all directorates)		Cash Receipting System Contract Management		Commissioning - Adult Care Provision - Commissioning and Monitoring of service delivery			
Continual Audit - Contract Waivers							
Voluntary Sector Commissioning (avoidance of procurement regulations)							
Contracts Register and publication requirements							
Continual Audit - Credit and Procurement Cards b/f							
Information Security/ICT (subject to specialist IT Auditor Planning Assistance)							
E Procurement System Controls		Mobile Device Security b/f					
Data Protection Compliance (new GDPR regulations)		DLP Security					
Data protection breaches - system for reporting (to be covered in above)		Operations Centre - resilience and security					
Cyber and PSN Compliance							
ICT Contract Management							
Cloud based storage systems - resilience, business continuity and security							
Finance System - resilience, security and business continuity							
IT Strategy and capacity to deliver		Digital Strategy					
Citizen Account - Implementation, security and resilience.							
HR and Asset Management							
My Performance - Compliance and effectiveness		Employment Status and right to work			Market Operations	Housing Stock - Planned Maintenance	
Staff training and development		IT Asset Management			Investment Property Portfolio	Housing Stock - Void Management	
		Plans for Enterprise Architecture			Fleet Investment Contract Award		
Projects and Programmes							
Savings trackers for Transformation Programme		HR/Payroll - New System Implementation				Housing Management System Implementation	

Telephones - (Ceased numbers)		Legal Services - Income generation - VFM					Right to Buy - (Properties sold on - recovery of discount)	
Card payment - Charge Backs							Public Health Burials	
Counter-Fraud								
Strategic Fraud Risk Management								
Fraud Recording and Reporting								
Annual Fraud Survey								
Open Data Reporting re Fraud (Transparency Code)								
Fraud Risk Register Review								
Fraud Policy Review								
Fraud Prevention Work								
Procurement - Bribery and Corruption Review		Fiscal Fraud Module Review		Direct Payment Fraud - Fraud Awareness Training for Social Workers			Housing Waiting List - Change of Circumstance testing.	
Money Laundering - testing and controls review re refunds				Schools - Fraud Awareness Training			Fraud Awareness Training - Caretakers	
Fraud Web page review and fraud warning bulletins								
Fraud Awareness Induction								
CIPFA Counter Fraud Benchmarking & Output Assessment Review								
Proactive Fraud Detection Exercises								
National Fraud Initiative				Schools Admissions		Parking Income	Housing Benefit Fraud - DWP Liaison	
Procurement - Data Analytics Development				Schools - Tied Properties		Residents Parking Zone		
				Direct Payments			Council Tax Reduction	
							Adaptions - tenancy check	
Fraud Investigation								
General Contingency for dealing with fraud referrals							Tenancy Fraud	
Fraud Hotline							Residual Benefit Fraud Prosecution Cases	
GAIN/Police Enquiries								

APPENDIX 2 – SUMMARIES OF COMPLETED AUDITS

A. CORPORATE

A1 GENERAL DATA PROTECTION REGULATIONS (GDPR) – READINESS REVIEW

Background

The General Data Protection Regulations (GDPR) replaces the Data Protection Act and is enforceable from 25th May 2018. A breach of GDPR can attract fines of up to 4% of turnover or €20 Million (whichever is greater) for the most serious infringements.

GDPR strengthens the conditions for consent to store and use of data. GDPR makes breach notification mandatory, where a data breach is likely to “result in a risk for the rights and freedoms of individuals”. This must be undertaken within 72 hours of first having become aware of the breach.

GDPR will have a fundamental effect on all managed Bristol City Council (BCC) processes and systems that hold personal data and will require significant change to working practices across all Directorates. Failure to be GDPR compliant by 25 May 2018 would leave BCC open to high value fines and significant reputational risk. In order to continue to handle sensitive data, such as that shared by the NHS and DwP and data collected directly from citizens, BCC will need to demonstrate GDPR readiness and ongoing compliance.

The European Commission allowed a two year implementation period (circa May 2016) for all organisations to prepare for GDPR. As part of the 2017/18 Internal Audit plan, Internal Audit was commissioned to undertake a readiness review of BCC’s implementation of GDPR.

Summary of Findings and Conclusions

At the time of the Audit report, while there had been much useful work in preparation for GDPR and raising general awareness, the approach to GDPR to date has not been treated as a formal project with appropriate governance and priority for an issue of this level of importance for BCC.

At the time of writing the report, an appointed Project Manager was due to commence in post, which is an essential step towards formalising the approach to GDPR. At this point in time, however, there was only seven months remaining before GDPR becomes enforceable and a formal project needed to be scoped, established and delivered as a matter of extreme urgency

Consequently, an “Urgent Issues” report was issued which identified the following **areas for improvement**, as at the end of September 2017, for which 5 recommendations were made:

- There was no formal document in place to define the purpose and structure of the project to implement GDPR across the Council.
- Governance arrangements for the GDPR had not yet been determined. There was no project sponsor at SLT level to ensure that the project has sufficient authority and no project board had yet been identified.
- Although a list of necessary tasks to deliver the project had been compiled with reference to guidance from the Information Commissioner's Office (ICO), there was, however, no project plan which details all activities needed, a timeline and 'milestones' which demonstrate how GDPR compliance will be achieved by the deadline.
- Resourcing of the Project to deliver compliance to be addressed.
- The GDPR legislation requires the appointment of a statutory Data Protection Officer (DPO). No DPO has been appointed and Internal Audit was informed that there has been no formal consideration of where the position would fit within BCC structures.
- A number of activities have been undertaken to raise awareness of GDPR across BCC. There have been briefings to SLT and Directorate DLTs. Awareness raising has, however, been inconsistent.

All recommendations were agreed for implementation and assurances were received that all relevant matters are being addressed.

A2 Data Loss Prevention System

Background

Data Loss Prevention (DLP) Systems can be used by organisations to help manage the loss of or unauthorised leakage of business sensitive or confidential information outside of the organisation. In 2015, the Strategic Director for Business Change at that time took a decision to research and implement as DLP system in Bristol following unauthorised leakages of information outside of the Council. This system could, therefore, enhance the management of data security in the Council.

A DLP system was sourced that could track 'tagged' documents and recorded the movement of emails meeting certain 'rule' requirements e.g. containing certain words etc. The system was deployed to relatively few computers - particular groups were selected based on the level of sensitive data they access.

IT Management advise that in reality, whilst the system was deployed and operational, its use has been limited due to the data volumes involved and the lack of resources to effectively monitor the data collected.

Scope

Following implementation of the system, allegations were received regarding the manner in which the system had been implemented and used. Concerns were raised that the implementation and use was illegal because of the way it was configured and deployed. Allegations were also made regarding other aspects of information security practices at the Council.

Upon receipt of the allegations, an investigation was completed by the Data Protection Officer at that time. One of the recommendations resulting from her work was that a further review was completed. Internal Audit was commissioned by the Head of Legal Services (with approval from the Senior Information Risk Officer) to complete that review which included a review of security arrangements referred to in the allegations and the DLP system implementation and configuration. Terms of reference for the review were drafted and agreed with the Interim Service Director – Business Change and ICT at the time.

Summary of Findings and Conclusions

Based upon completion of the fieldwork, a **Limited Assurance** opinion was assigned.

Regarding the implementation of the DLP system, there is a risk that data protection legislation may have been contravened because:

- The implementation of the system was not open and not communicated to those affected. *(It was advised that the reason for this initially was to enable an assessment to be made of the data loss threat)*
- An impact assessment was not carried out in line with best practice Data Protection Act principles in advance of deployment (or since).

Since concluding the review, Internal Audit has been advised that swift corrective action has been taken by management to minimise the impact of this potential risk:

- A decision has been made to 'switch off' and uninstall the system.
- All data collected by the system has been/will be deleted.

Recommendations have been made and agreed by current management that:

- Any future need for such systems which could enhance data security is considered openly via the Council's decision pathway and includes advice from legal services and the Data Protection Officer.
- This will include completion of a Privacy Impact Assessment.
- If it is determined that such a system would benefit the Council, implementation will be open and effectively communicated to all affected and in this eventuality, Internal Audit will review arrangements to ensure processes are put in place to protect the data collected.

Regarding other information security concerns:

- Allegations were unfounded concerning the Council's failure to take appropriate action following the installation of unauthorised software (this is not referring to the DLP system software but other software) and the unauthorised disabling of the antivirus software.

Recommendations were also made and agreed with management in respect of the following:

- Whilst the Council has an information security policy, a review of it in May 2016 had not been presented to the Information Assurance Group or rolled out across the Council. Management have advised it is currently being updated again prior to approval and roll out.
- Contract documentation is being strengthened to ensure appropriate information security arrangements are in place for contractors working for the Council.
- Information impact assessments were not consistently being completed for all projects to assess information risks and impacts. All projects, however, now require the completion of the new "Business Case Template. This requires consideration of an Information Impact Assessment at the "Preferred Options" section prior to the project being permitted to progress to the next stage - the Full Business Case.
- Regularity of convening the Information Assurance Group – these are now taking place every two months.

B. NEIGHBOURHOODS

B1 Neighbourhoods Budgetary Control 2016/17

Budgetary control arrangements for the Neighbourhood Directorate during 2016/17 were reviewed as part of the 2016/17 planned audit work. Whilst the fieldwork for this was largely finalised in 2016/17, the report was issued in 2017/18. The objective of the audit was to review control mitigations to manage the following risks in the following areas:

- Meeting statutory obligations within budget.
- The management of overspends
- Identifying and mitigating financial pressures

Based on the completion of the fieldwork, a **Reasonable Assurance** Audit Opinion was assigned. The key **areas of compliance / good practice** identified during the review are summarised as follows:

- There was a satisfactory understanding of the budget forecasting process with a sufficient level of case root analysis completed to support budget forecasting.
- A survey of budget managers across the directorate highlighted clear understanding of responsibility in terms of budget management
- Budget position reporting was generally sound

The audit also identified the following **areas for improvement**, for which seven recommendations were made, which included:

- Internal recharge forecasting arrangements.
- Clearer reporting to DLT and upwards.
- Addressing central processes that impact directorate budget monitoring limiting effective budget management by the budget holder.
- Determining and resourcing the required level of central support to Directorate budget holders.
- Further training provision for budget managers.
- Processes for checking budget availability prior to authorising spend.

All recommendations were agreed. Budget monitoring and reporting processes across the Council have been reviewed and strengthened for 2017/18 which, Internal Audit understands, include stronger challenge from Corporate Finance, strengthened action planning to address forecast overspends and reporting budget positions before and after use of reserves. Internal Audit will test that these arrangements later in 2017/18.

C. PEOPLE

C1 Foster Care Payments and Budgetary Control

In 2016/17, the Council spent £17.5m on foster care payments, which includes both in-house and agency provision. The objective of the audit was to review control mitigations to manage the following risks:

- Payments made in excess of agreed rules.
- Payments made to the right carer / supplier.
- Adaption grants are paid accurately to those entitled.
- Overspending.

Based on the completion of the fieldwork, a **Limited Assurance** Audit Opinion was assigned. The key **areas of compliance / good practice** identified during the review are summarised as follows:

- Supporting documentation was available to evidence authorisation and completion of details for payments to “in-house” carers for the last 2 years.

The audit also identified the following **areas for improvement**, for which 5 recommendations were made, including:

- The forms completed to cease payments when a child moves from an in-house foster carer to an agency are not completed on a timely basis, increasing the risk of overpayment.
- Although no overpayments were identified from the audit sample, it was noted that an overpayment of £6000 had been made when a form was received two months late.
- A significant number of the Individual Placement Agreements, which set out the contracted arrangements for each child placed with an agency, were missing or incomplete.
- Although Internal Audit was informed that there is a check of the details of Agency invoices prior to payment, the checks were not evidenced.

All recommendations were agreed for implementation.

C2 Early Years Funding

Background

Early Years Funding is provided by the Department for Education (DfE) as part of the Dedicated Schools Grant (DSG) to fund children who are entitled to free nursery provision.

There was a shortfall in the expected funding that was received for 2016/17 of £1.8m (subsequently estimated to be £1.71m). This was due to an error in the January 2016 Census Return, on which the funding was based. Some children receiving reduced hours provision over a longer period had not been recorded as such so the total hours recorded as funded was lower than it should have been.

Scope

This was a retrospective review commissioned by the Service Director, Finance and the Mayor to cover:

- How the error in the census return occurred, was discovered and rectified.
- The governance in place in the People Directorate to oversee Census Returns.
- What action was undertaken including escalation and reporting to appropriate levels within BCC and appropriate engagement with Education Funding Agency (EFA) /DfE, firstly when the error was identified and secondly when the impact on funding became clear.
- The implications of the error/loss of funding.
- What lessons can be learned in respect of completing returns, governance and internal and external reporting.

Summary of Findings and Conclusions

How the Error Occurred

Internal Audit confirmed that an error had been made in the January 2016 Early Years census to the DfE. This affected the DSG funding received for both the 2015/16 and 2016/17 financial years (the 2015/16 academic year). This was the first time that a completely electronic return had been made, with the providers of childcare completing electronic returns, developed by corporate IT, that were specific to Bristol.

The error was not noted by staff within Bristol City Council until the funding for 2016/17 was received in August 2016 (together with a clawback for 2015/16). The issue, however, was queried promptly with the DfE.

The error occurred because an optional column on the January 2016 Early Years census to the DfE had not been completed. This was due to an error compiling information from the electronic returns from providers of childcare into the correct format to submit to the DfE. This meant that those children that received the stretched provision were not recorded as all year round within the output, reducing the total hours provided (i.e. recorded as receiving 12 hours a week for 38 weeks rather than 48 weeks a year).

Key Control Issues

The key control weaknesses identified in this process, for which 6 recommendations were made, are summarised as:

- The census output figures were incorrect and if a comparison had been made with the previous year, the error may have been identified.
- There was no authorisation or checking of the census at a senior level.
- There was no evidence that the S.151 Officer was informed of the error and potential loss of funding by Finance staff when the issue was first highlighted.
- There was no evidence that the Service Director, Education and Skills was informed of the error and loss of funding when the issue was first highlighted.
- Although there was frequent contact with the DfE, senior staff were not involved in this liaison with the DfE to try to resolve the issue and obtain the additional funding.
- Reliance was placed on telephone calls with little written evidence from the DfE.

All recommendations were agreed for implementation.

D. PLACE

D1 Green Deal Community Grant Review

Background

A Cabinet report in January 2014 presented details of a projected Green Deal (and Energy Company Obligation) grant and sought approval of the deal and proposed administrative arrangements.

A Memorandum of Understanding (MoU), dated April 2014, between BCC and the Department of Energy and Climate Change (DECC – now the Department for Business, Energy and Industrial Strategy (BEIS) set out the terms and conditions associated with the grant.

BCC received a “Green Deal Community Grant”, totalling £7.3m in July 2014. The grants were broken down as follows:

- £5.3m for supporting the then national Green Deal programme for installation of a community based street by street programme of energy efficiency measures.
- £2m grant for energy efficiency improvement in the private rented sector.

The Green Deal Project was delivered initially in partnership with a Green Deal provider (GDP). The GDP went into liquidation in October 2015 and delivery was brought in-house. The ‘sign up’ of new customers was temporarily suspended while issues with existing customers were addressed.

The grant was originally to be spent by March 2015, although the delivery period was subsequently extended to a second year with a final deadline of 30th September 2016. The Confirmation of Spend Letter from BEIS dated 23 January 2017 (signed by the Service Director, Finance 16 March 2017) confirmed that total spend against the grant was £4.002m and that £3.290m was required to be repaid to BEIS.

Scope

This was a retrospective review commissioned by the Service Director, Finance and the Mayor to cover:

- Evidence upon which the grant bid assumptions was based and the reasonableness of the grant bid.
- A comparator of the actual delivery approach adopted and resources applied and the proposal in BCC’s bid submission.
- The governance of the grant within BCC and whether reports to DECC (BEIS) were made in accordance with the requirements of the MoU.
- Whether responsibility for delivery was properly assigned with sufficient resource and prioritisation within the Service.
- Whether a proper supply chain was put in place to deliver the project and whether delivery was appropriately monitored.
- What action was undertaken when delivery issues and underspending was identified and whether appropriate mitigating actions were implemented with escalation and reporting to appropriate levels within BCC and appropriate engagement with BEIS.
- Lessons learned for the management of future projects.

(The scope of the work did not cover the Energy Company Obligation.)

Summary of Findings and Conclusions

Reasonableness of the Grant Bid

The final grant bid, dated April 2014, was optimistic in terms of the project deliveries during the initial funding period of one year. The bid was significantly inflated in order to be successful and the final grant bid, for £7.3m, was significantly more (£3.9m or 53.4%) than that previously reported to Cabinet. There was a risk that if the higher bid had not been submitted then no grant would have been forthcoming and no energy efficiency benefits to the citizens of Bristol would accrue.

The increased submission, however, increased the risk of non-delivery. The final submission committed BCC to the delivery of 2386 Energy Plans and 1411 Green Deal Plans - . Actual Delivery (April 2014 - September 2016) was 846 Energy Plans (35% of commitment) and 920 Green Deal Plans (65% of commitment). The increased grant and risk of non-delivery of the project in full was not formally re-assessed or formally updated to Cabinet.

Delivery Approach and Resources Applied

The risk concerning the Green Deal Provider's (GDP) financial failure was known from the beginning of the project. There is documented evidence, dated July 2014, prior to the issue of the Preferred Bidder letter, that the procurement vetting officer classified the applicant company (subsequently the GDP) as high risk because of poor financial standing.

The mitigation identified was to bring the scheme in-house. This mitigation was not fully developed in advance and therefore when the risk materialised, due to the GDP company liquidation, the response was reactive rather than planned.

The key issues highlighted in the Audit report relating to the GDP were:

- Internal Audit was informed, but cannot substantiate, that the GDP's supply chain consisted of 13 suppliers, seven of which were local. Therefore, a supply chain was in place for the project which might have been able to achieve project delivery, providing it was effectively managed.
- A Project Highlight Report in October 2014 recorded a concern about unreliable reporting by the GDP.
- The GDP was issued with eight (one in July 2015 and seven in August 2015) official warning notices concerning the quality of work delivered by subcontractors. An analysis of these notices revealed details of performance breach which had not been addressed by the contractor for six months or more. The delay in formal actions indicates that the BCC project team did not appropriately respond to GDP failure.

Governance of the Grant and Reporting Arrangements

The key issues highlighted in the Audit report relating to governance and reporting arrangements were:

- The project governance arrangements were not established until one year after the project commenced.
- Project Highlight Reports did draw attention to the risk of not delivering the project on time., which was reported to the Place Programme Board but there was no evidence/ trail of this risk being reported to the Capital Project Board except for once in December 2016, when the project underspend was mentioned. It is concluded that the Project Highlight reports were not prioritised or adequately mitigated.
- A Project Risk Register and Issue Log was not prepared and maintained by the Project Team.

Assignment of Responsibility for Delivery

The risk that the project would not be delivered on time was recorded from the beginning of the project. This had, however, not been mitigated by a schedule with measured milestones to ensure that the project could meet the deadline.

The in-house project delivery team was increased following the GDP liquidation and a new structure and responsibilities was established and assigned. Delivery was, however, so in arrears that full delivery by September 2016 was not realistic. In-house delivery for the last 12 months of the project delivered 205 installs.

Lessons Learnt

Internal Audit identified the following lessons that to be learned:

- The Grant bidding process should be reviewed. A formal process for abiding and accepting a grant should be established, which includes reporting at appropriate levels including Cabinet.
- Each grant should be supported by a business case which demonstrates how delivery will be achieved and the associated risks.
- Governance arrangements should be established from the beginning of every Grant project to ensure that any issues with the project are identified on a timely basis and dealt with at the appropriate level.
- Effective contract management processes for contractors should be in place with independent quality assurance provided by officers from outside of the project team.
- Project Management Office functions and responsibilities should be revised. The PMO should be responsible for providing assurance that each project is carried out in compliance to the approved BCC project management approved practices.
- Each project should have a schedule with milestones which are reviewed by management on a regular basis. Risks should be identified, mitigated and escalated accordingly during the life of Grant projects.

E. RESOURCES

E1 Accounts Receivable

The objective of the audit was to review control mitigations to manage the following risks and debt process related activity:

- Data Integrity and quality of interfaces between financial system (ABS) and feeder systems.
- Debt Collection process.
- Credit Notes and write offs of irrecoverable debts.
- Debts not collected or written off due to pending queries.
- Review of agreed payment plans.
- Detailed review of social care debts (which constitute approximately 24% of total outstanding debt).
- Review of implementation of previous audit recommendations.

Based on the completion of the fieldwork, a **Limited Assurance** Audit Opinion was assigned. The key **areas of compliance / good practice** identified during the review are summarised as follows:

- There has been a £3.7m reduction of outstanding debt in the year ending 31st March 2017.
- Processes relating to credit notes, payment plans, issuance of reminders and statement of accounts.

The audit also identified the following **areas for improvement**, for which 14 recommendations were made:

- The Council's debt recovery procedures are not compliant with the Care Act 2014 and related guidance in that the Council's debt recovery procedures treat all debt with the same approach and not as in the principles outlined in the Act and its supporting guidance, which require a bespoke approach to social care debt.
- Due to the initial low value of care related invoices, unpaid invoices may not be followed up at an early stage and errors on incorrect assessments may go unnoticed.
- There are field restrictions on the ABS system which do not allow all billing related information for care debt from the relevant interface to be printed on the invoice generated. This gap in quality in detail has a significant impact on recoveries.
- Debts written off as uncollectable have not been reported annually to the Cabinet as per Financial Regulations.
- The need for financial assessment forms to be revised to include options for setting up direct debit or standing orders to facilitate prompt payment of care charges.
- The time taken to follow up unpaid charges was inconsistent.
- Bulk write offs being processed outside the ABS system due to system workflow issues and consequently the approver of the write off does not have a full trail of actions undertaken in relation to recovery prior to approving the write off.

- Current Financial Regulations in respect of the writing back of a debt to the relevant Directorate budget after a year is not being implemented (in order for the budget to absorb the cost of the debt) with the debt being held centrally.
- The coding of debt within ABS indicating the status of debt recovery was not consistently applied making aggregation and analysis difficult.
- There is no formal guidance in terms of an approved debt recovery policy and the next stages beyond issuance of reminders and statement of accounts are informal leading to inconsistencies in process.
- The role, responsibilities, expected job outcomes and working arrangements with Council services of the Accounts Receivable Team are not clearly stated and remain the subject of different understanding and interpretation. Thus, for example, the removal of the previous dedicated recovery resource had not been effectively communicated.
- Several actions agreed from the previous Audit report in 2015 had not been implemented.

Additionally, it was noted that:

- The provision for bad debt requirements has increased by £3.1m for the year ending 31st March 2017
- A Corporate Debt Policy has been drafted but not formalised.

All recommendations were agreed for implementation with the supply of comprehensive detail in response to the audit report and the incorporation of actions within the Finance Transformation project.

Audit Committee

23rd November 2017



Report of: Interim Chief Internal Auditor

Title: Internal Audit Counter Fraud Update Report 1st April to 31st October 2017

Ward: N/A

Officer Presenting Report: Jonathan Idle – Interim Chief Internal Auditor

Contact Telephone Number: 0117 92 22452

Recommendation

The Audit Committee note the Internal Audit Counter Fraud Update report for the period of 1st April to 31st October 2017.

Summary

This Report provides the Committee with summary of the work undertaken by the Internal Audit – Counter Fraud team and the savings generated from counter fraud work.

Significant Matters Arising:

Key messages arising from this report at Appendix A;

- The Internal Audit Counter Fraud team continues to identify potential savings which covers its costs.
- The volume of work is considerable and there are competing priorities which create problems for the team and existing resources.
- The Counter Fraud team does not have a stable resource position .
- Issues relating to turning potential savings into actual recoveries from counter fraud work.
- Assessment of the Council's Counter Fraud arrangements have been carried out and an Action Plan developed to address gaps.



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 half yearly update report outlining the Counter fraud work that has taken place in Bristol City Council. The report is provided to:

- Give an overview of the work of the Internal Audit – Counter Fraud and Investigations team and other anti-fraud work which has taken place within the Council;
- Present details of the savings identified through counter fraud work.
- Spotlight the volume and variety of investigation work that the Counter Fraud team undertakes and the competing priorities.
- Highlight the unstable basis of the existing Counter Fraud team.
- Summarise the main areas where there are gaps in our arrangements against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.
- Provide opportunity for the Strategic Leadership team to re-inforce their statement on the Council's commitment to tackling fraud.

The full report can be found at Appendix A

3.2 Key points arising from the Fraud Update Report:

- The Internal Audit Fraud and Investigations team continues to pay for itself with cashable savings of £539k, notional savings of £1.8m and a weekly cost avoidance of £9k (as a result of cancellation of a benefit or other payment) to date in 2017/18.
- The team has a high volume of work with several on-going investigations of fraud or irregularity which compete for priority with fraud prevention and other proactive fraud work which generates savings.
- The Internal Audit – Counter Fraud and Investigations team includes 2 temporary secondments, two posts funded from the benefits administration grant and a fixed term appointment and therefore an unstable resource base for future counter fraud work.
- Gaps in the Council's Counter Fraud arrangements against the CIPFA Code of practice, in addition to the two points above are in the following areas:
 - Fraud risk management
 - Resource issues affecting financial recovery from fraud work.
 - Greater publicity

- Publication of money laundering policy
- Better management of expectations re responsive investigation work

➤ The SLT statement that fronts the Anti-Fraud and Corruption Policy and Strategy is re-affirmed.

4. Proposal

4.1 The Audit Committee considers the work of the Internal Audit – Counter Fraud and Investigations team during the period of 1st April to 31st October 2017, and the results there of.

5. Other Options Considered – N/A

6. Risk Assessment

The work of Internal Audit Counter Fraud team reduces fraud losses and increases the potential for prevention and detection of such issues.

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 – Counter Fraud Update Report for period of 1st April to 31st October 2017

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:

None.



BRISTOL

INTERNAL AUDIT

APPENDIX A

INTERNAL AUDIT

COUNTER FRAUD UPDATE REPORT

26th October 2017



1. Introduction

- 1.1 Bristol City Council's Counter Fraud and Investigation team was formed in 2012 and is based in Internal Audit.
- 1.2 The purpose of this report is to:
 - provide an update on the work and results of the Counter Fraud and Investigation team.
 - Provide an update on the assessment of the Authority's counter fraud arrangements against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.

2. Key Messages

- 2.1 The Counter Fraud and Investigation team undertakes a variety of work and has a large number of internal investigations currently. There is a difficult balance to be struck between responsive and proactive work.
- 2.2 The work of the team continues to generate significant recoverable, on-going and notional savings for the authority.
- 2.3 An assessment of the Council's counter fraud arrangements against the CIPFA Code of Practice has been undertaken and actions to fill any gaps summarised.
- 2.4 There are no amendments to the Council's Anti Fraud and Corruption Strategy and Policy at the current time.

3. Overview of the work of the team and results

- 3.1 The team undertakes a variety of work including:
 - Responsive investigation work – investigating allegations of fraud and irregularity in accordance with Anti-Fraud, Bribery and Corruption policy.
 - Proactive fraud work – undertaking data analytics and data matching to find fraud.
 - Fraud prevention work – reviews to identify weaknesses in fraud controls.
 - Training and publicity – raising awareness of fraud with work colleagues and the public.
 - A co-ordination and liaison role with the DWP for benefit fraud work
 - Responding to enquiries from other enforcement agencies such as the police, NHS and other Local Authorities.
- 3.2 The team currently has a significant volume of internal investigations of fraud or irregularity. The investigation of these is policy driven and provides assurance to Management on concerns raised, along with actions for improvement.

- 3.3 The level of work in this area and the expectation of management, that these are dealt with promptly, does impact on the amount of proactive fraud work that can be delivered. The proactive work can deliver real savings or other benefits to the Council. This difficult balance is discussed further in Section 4: Counter Fraud Assessment.
- 3.4 The team has a performance target of 37 council property regains (based on last year's result) which is unlikely to be achieved this year. There appears to be a stronger burden of proof expected by the courts, leading to greater caution in taking legal action. Resource issues within the Resources Directorate and the Investigations team who have a large number of responsive investigations work has also impacted on performance on tenancy fraud. There are no other formal performance targets for the team, although it is expected that the team will pay for itself by way of savings.
- 3.5 The cost of the team for 2017/18 is expected to be £357,000, savings to date are £539,019 recoverable, £1,759,398 notional and weekly cost avoided £8970 as detailed in below. Clearly, the team more than pays for itself by identifying recoverable and other savings.

Savings for 2017/18 (as at 26/10/17)

Fraud area	Recoverable	Notional	Weekly cost avoidance
Tenancy Fraud	£5976	£1,488,000	£187
Right to Buy	0	£270,700	0
Care Homes	£176465	0	£5829
Benefits (NFI)	£20908	0	£884
Benefits	£276271	0	£1245
Council Tax Reduction	£36909	0	£573
Admin Penalties (Adpens)	£15476	0	0
Personal budget	£3000	0	0
Fuel card misuse	£4014	0	0
Blue Badge/bus pas	0	£698	0
Other	0	0	£252
TOTAL	£539,019	£1,759,398	£8,970

Figures used for notional savings are:

- (i) Council property recovered = £93000 (figure recommended by Cabinet Office)
- (ii) Bus pass = £500 per year
- (iii) RTB = Discount that would have been awarded on the sale.

NB: The above does not reflect the extent of recovery of any savings.

Workload facts and Figures

The Counter Fraud and Investigations team has the following caseload as at October 2017:

- 307 Benefit (assisting DWP investigations)
- 149 tenancy fraud
- 13 Procurement
- 49 Council Tax Reduction/SPD
- 7 Social Care
- 2 Local Taxation
- 3 Blue badge
- 5 Employment

Since 1/4/17 it has received :

- 177 Tenancy Fraud referrals
- 313 Requests for information from the DWP
- 15 other fraud referrals including Procurement, Social Care, Blue badge and employee fraud.
- 21,708 National Fraud Initiative data matches received of which 2684 reviewed and concluded, 111 currently in progress
- 223 requests for information from the Police or other enforcement body.
- 106 pupil tracking requests for information.
- 116 advice queries on benefit fraud from colleagues

Provided fraud awareness training sessions to:

- Social workers
- Caretakers
- Benefits administration teams

Has completed or in progress, proactive fraud work in following areas:

- Purchase cards
- Business Rates
- Right to Buy

Results facts and figures

- 16 Council properties regained
- 8 Right to buy applications cancelled due to false information.
- 1 false housing application cancelled
- 2 false succession cases identified
- 19 care home payments cancelled where death of client had not been notified to BCC
- 1 employee dismissed for misuse of a fuel card
- Blue badge education and enforcement exercise carried out resulting in two potential prosecution cases, and 12 penalty charge notices served.
- 159 Blue badges cancelled on system, so that enforcement action can be taken if used.
- 129 Concessionary Bus passes cancelled to prevent use.

3.6 For the remainder of the year the team is looking to:

- Bring to a conclusion as many of the responsive investigations that are in progress as possible.
- Complete work on National Fraud Initiative data matches and submit data for the Local Tax/Single Persons Discount data match.
- Analyse tenancy fraud cases to enable a more targeted approach to tenancy fraud work.
- Explore use of data from the Gas Servicing team, Response maintenance system and Key fobs to assist with identification of tenancy fraud and abuse.
- Explore opportunities for 'continuous audit processes' and better data analysis.
- Complete work in progress on NNDR and 'Right to Buy'.
- Upgrade the team's case management system.
- Undertake some proactive fraud work in relation to the Housing Waiting list.
- Undertake a review of fraud prevention controls around procurement and bribery and corruption risk.
- Work to embed fraud risk into the risk management processes in BCC.

4. Counter Fraud Assessment & Benchmarking

4.1 The Counter Fraud and Investigations service has been self-assessed annually , including this current year. The following assessment tools have been used in the current year:

- Submitting Counter Fraud data to the CIPFA benchmarking club
- Contributing data to the CIPFA annual fraud survey
- Assessing Counter Fraud arrangements against the CIPFA Counter Fraud Assessment Tool.

4.2 The draft CIPFA benchmarking results have just been received and will be reviewed for accuracy, analysed and reported on at a later date.

4.3 A summary of the results, produced from the CIPFA Counter Fraud assessment tool are shown at Figure 1 .

Counter Fraud Assessment:

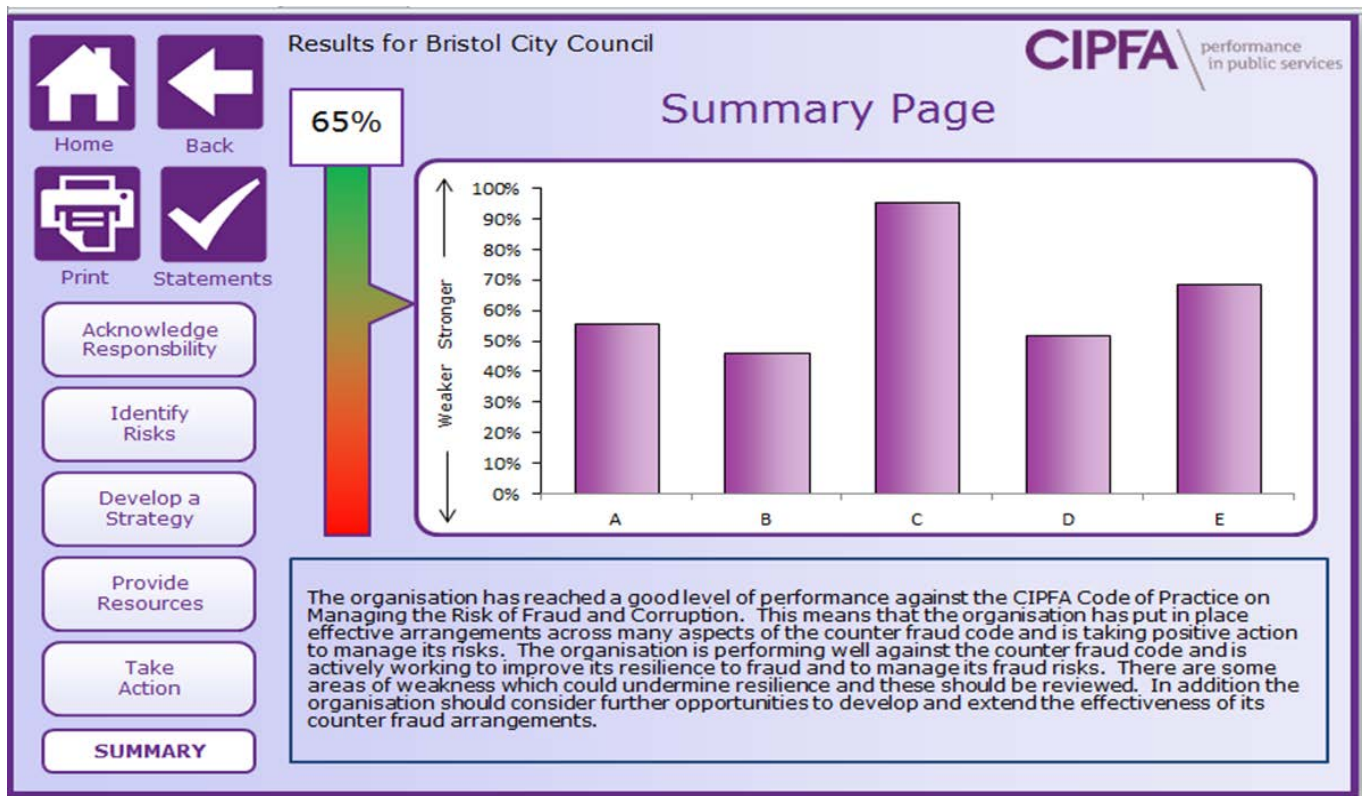


Figure 1

A = Acknowledge responsibility

B = Identify Risks

C = Develop a Strategy

D = Provide Resources

E = Take Action

**Gaps in BCC's
counter fraud
arrangements
against CIPFA
Code of
Practice**

More work to be done on fraud risk and to embed fraud risk in the risk management process.

Fraud and Investigation team strategy to be reviewed in line with authority's requirements. Resources to be aligned to strategy.

A more stable basis for the investigation team with temporarily funded positions and a secondment being secured on a more permanent basis.

Other areas of the Council to be reviewed, where resource issues are impacting on the success of fraud work (ie Legal Services, Debt recovery). Service level agreements to be put in place, where appropriate.

Review needed of the rights of access, that authority investigators have to outsourced activities, shared services and partnership arrangements. A standard approach to be adopted for all externally provided services.

Greater publicity needed around fraud work and raising awareness of fraud.

Money laundering policy and guidance needs to be published and some refinements needed to whistleblowing arrangements.

Communication with directorate management needs to be improved to manage expectations around internal investigation work.

Future options for assessing the efficiency and effectiveness of counter fraud operations, to be considered and the recording of savings.

Figure 2

4.4 The significant gaps for the Internal Audit Investigation team are in relation to:

The absence of a stable fully resourced investigation team with posts temporarily funded and an uncertain secondment.

4.5 The cost of the team is predominantly met from Audit Team budget. Other funding sources also contribute with £86k provided from the benefits administration grant and a Housing Advisor, funded from the HRA. With both of those funding sources currently under pressure, the team has a budget risk outside of its control. Action 2 in the table at figure 2 refers to the need for the 'Council to determine its priorities for the team and align the budget accordingly'. In determining the priorities for the team the following should be noted:

- The Housing Advisor secondment is only guaranteed until 31st March 2018. The Estates Manager does not foresee this changing but it would be beneficial for clarity in respect of a permanent arrangement.
- Funding for the two investigator posts paid for from benefit subsidy needs to be secured.
- A more stable basis for the Counter Fraud team will enable on-going savings to be made from proactive fraud work and more work to enable prevention, or early detection of fraud.

The wide remit of the investigations team and the conflicting priorities and demands made on the team:

4.6 The role of the Internal Audit Investigations team needs consideration as to what it can deliver and what it is expected to deliver. Considerations are:

- Proactive fraud work of the team delivers the most savings
- Investigation of responsive work (allegations) is a current policy requirement and can sometimes generate savings, but is resource intensive.
- Preventative fraud work should be an aim and can save costs up front. This is, however, difficult to measure and prove value, with most benchmarking being based on results of fraud found.
- Should the team investigate just fraud or any financial or other irregularity?
- Should the team be required to sell its service externally or concentrate wholly on the Council?

4.7 The impact of achieving performance targets in some areas, when other demands are made on the service that are not so easily measurable, needs to be considered.

5. Counter Fraud activity across the authority

Single Persons Discount

5.1 In 2016/17 Bristol City Council had the lowest percentage of single person discounts of all core cities at 29%. This can be attributed to robust procedures and practices in awarding single person discounts. Council tax liaise with Benefits, Rents, the fraud team within Internal Audit, the Citizen Service call centre and the Citizen Service point to identify potential fraudulent claims or changes in entitlement to single person discount.

Employee dismissed for misuse of Council vehicle fuel card.

The employee concerned had held onto a 'bearer fuel card' (card that can be used for any vehicle) after using a temporary vehicle due to a fault with the individual's usual vehicle.

The card was used to purchase fuel for the individual's own vehicle over a period January 15 to August 16.

The misuse was spotted following centralisation of the budget and monitoring processes. An investigation was carried out by the Internal Audit - Investigations team and resulted in dismissal of the employee.

The amount of fuel purchased for private use is believed to be in excess of £4k. Action to recover the money is in progress.

5.2 Plans are in place for Local Taxation to carry out a full review of the 59,000 single person discounts early in 2018. The review will reaffirm genuine claimants and act on potential cases of fraud using data matching and analysis to ensure the accuracy of our records in a cost effective way. The 2016 review resulted in removal of 1,029 single person discounts. The review in 2018 has the potential to generate a similar outcome and identify at the earliest possible stage fraudulent claims and changes in discounts awarded.

5.3 Bristol City Council also takes part in the National Fraud Initiative to identify potential dual occupancy at properties claiming single person discount. The NFI data matching exercise/investigations are due to take place before the end of this financial year.

National Non-Domestic Rates

5.4 A review by Internal Audit concluded, in January 2017, that the service had a good level of control and management can have reasonable assurance that measures are in place which limit loss of income to the council through fraud and evasion. However due to other Local Authorities successfully making savings through proactive work on NNDR, an exercise is currently underway by the Counter Fraud and Investigations team, working with Local Taxation.

5.5 This piece of work will look at:

- Phoenix Companies - where the assets of one Limited **Company** are moved to another legal entity so that a debt is written off
- False claims for discounts & reliefs
- Failure to notify liability for NNDR

Blue Badge Enforcement

- 5.6 On 27th September 2017 the Council conducted an operation to target misuse of Parking Cards for Disabled People, commonly referred to as “Blue Badges”. The Road Traffic Regulation Act 1984 Section 117 creates an offence where a blue badge is displayed for parking , but the badge holder is not present in the locality.
- 5.7 On the day, two teams each consisting of a traffic Civil Enforcement Officer, a police officer and an investigator from Internal Audit patrolled the areas of Broadmead and the City Centre.
- 5.8 12 Penalty Charge Notices (PCN’s) were issued where there was a suspicion of misuse of badges and 2 further cases are ongoing and under investigation to decide whether criminal proceedings should be brought by the council under the above Act”. 6 have been paid without any appeal. 5 are outstanding and progressing as per the process. 1 has been cancelled on production of evidence that the badge holder confirms that she was shopping at the time we spoke to the driver.
- 5.9 During the day the teams also spoke with a number of drivers and checked badges against occupants of the vehicles. The Police were very helpful and also assisted with odd items (number plate not right etc.) and backing up our requests.
- 5.10 It is intended that further Blue Badge days of action will be carried out.

Right to Buy

- 5.11 All right to buy applications are checked in bulk by the Counter Fraud and Investigations Team using a credit reference software.
- 5.12 A review of the fraud prevention controls was undertaken in December 2016 and a new procedure which involved face to face meetings with tenants looking to buy their property, along with a check of key identification documentation was piloted by the ‘Right to Buy team’. This has been very successful and has improved customer service whilst also reducing the number of applications which are taken forward, at an early stage of the process. The Team Manager is looking to resource this on a more permanent basis and the Investigation team will be analysing why some of these applications are withdrawn for any indication of fraud or tenancy abuse. Other improvements in the process have also been implemented successfully.
- 5.13 In addition work is currently underway to review the process and controls to ensure that where properties are ‘sold on’, the discount is recovered.

6. Counter Fraud Strategy and Policy

- 6.1 There are currently no amendments to the above, although the Strategy will likely need revision following consideration of the CIPFA Counter Fraud Assessment.

- 6.2 As part of this update, the SLT were asked to consider their 'Statement on Counter Fraud' which is at the start of the Anti-Fraud Policy and Strategy. There are no required amendments and the SLT re-state their commitment to tackling fraud as below:

Last modified: 05/02/2016 18:50 Fraud Policy Review V 1.4 Final Page 2 of 8

Statement on Fraud by the Strategic Leadership Team

Bristol City Council – Strategic Leadership team are committed to implementing and maintaining the highest standard of corporate and financial governance and ethical behaviour. We recognise that fraud against the council harms the citizens and taxpayers of Bristol and for that reason, fraud, bribery and corruption against the council will not be tolerated and all such occurrences will be investigated. We will undertake to consider the circumstances of each case of fraud we investigate to ensure we seek a fair and balanced outcome.

We fully support the investigation of allegations of fraud, the continued development of a robust anti-fraud culture and framework within the Council and a strong stance being taken where fraud is found.

The diverse nature of services provided by a council mean that there are many areas where we could be a target for fraud. We will ensure we understand the main fraud risks we face and set out how we protect against them in our fraud risk registers.

We the leadership team, with your support, will strive to ensure that we have robust processes in place to prevent fraud in the first instance and, that we do not forget the risk of fraud in our drive to improve efficiency in our services.



Audit Committee

23rd November 2017

Report of: Director of Finance

Title: **Corporate Risk Register Update**

Ward: Citywide

Officers Presenting Report: Denise Murray – Director of Finance

Contact Telephone Number: 0117 3576255

Recommendation

The Audit Committee review and comment upon the draft Corporate Risk Register (CRR) as a source of assurance that risk management arrangements are in place and developing.

Summary

This report presents the newly refreshed draft Corporate Risk Register following consultation with management across the Council. The Risk Management Policy has also been reviewed and the draft CRR is now presented in the format required by the new policy. The CRR will be presented to Cabinet quarterly going forward.

The significant issues in the report are:

- The CRR should be an important tool in managing risk. It aims to provide an overview of the key risks and issues facing the Council and how they are being managed. (Paragraph 3)
- The review process has included managers from across the Council.
- The draft CRR is presented in the format required by the recently updated Risk Management Policy and is attached at Appendix A1. Issues are recorded in Appendix A2
- As strategic planning processes are developed and strengthened, identification of risk to the achievement of the Council's strategic priorities and objectives needs to develop



1. Policy

The Accounts and Audit Regulations 2015 require the Council to have effective arrangements for the management of risk and each year, in the Council's Annual Governance Statement, the Council is required to comment on the effectiveness of its arrangements in this regard. The statement must also identify any significant governance issues that may have resulted from failures in governance and risk management.

Risk Registers are an important part of risk management, and the new CRR has been prepared and is presented in line with the Risk Management Policy that was considered by the Committee in September 2017 and is due to be approved by Cabinet in December 2017.

2. Consultation

Internal – First to fourth tier managers, Extended Leadership Team, Strategic Leadership Team, Cabinet Member, Finance, Governance and Performance.

External – None

3. Context

- 3.1. Risk management is an important management tool and has been used by the Council for a number of years.
- 3.2. Risk registers have an important role in summarising risk information to provide assurance that risks and issues are correctly identified and are being effectively managed. The Council maintains registers to record and monitor risks at various levels. At the strategic level, in the Corporate Risk Register; and at an operational level in Directorate, Service, Programme and Project risk registers.
- 3.3. The Corporate Risk Register (CRR) contains strategic risks that, should they occur, could have a fundamental impact on the Council's ability to operate or achieve its strategic objectives; and is the means by which senior management and Members monitor and review the effectiveness of risk management arrangements in place to manage these risks. The Risk Management Policy requires risks presenting at a current risk level of 14 or above to be escalated to the CRR. The CRR can also include risks of a lower risk level that need to be monitored and reviewed corporately as determined by senior management.
- 3.4. The CRR was last updated and reviewed in January 2017. Since that time, work has been undertaken to review the Risk Management Policy to ensure it is fit for purpose and develop the CRR. Risk register formats have been reviewed as part of the policy review to provide for a more succinct format which should allow for better review and challenge.
- 3.5. The current CRR is presented in the new format which provides for both the risks faced and the opportunities available to the Council in achievement of its priorities and objectives to be recorded and reviewed. Additionally, the new risk register format extends to recording the management of risks that have already occurred which have caused significant 'issues' that need to be managed.

4. Review Process

- 4.1 Previously, risk identification was undertaken by members of the Extended Leadership Team which included Strategic and Service Directors (a top down approach). At a time

when there is significant change at this level of management, and to engage a wider management view, the current review has included gathering of views on the key corporate risks from as many managers as possible.

- 4.2 A survey was conducted which was circulated to all Directors, Service, Team, Programme and Project Managers to capture what they considered to be the main strategic risks facing the City Council at this time. The results from this survey were collated and reviewed with 'like' risks grouped together and duplications removed.
- 4.3 These risks were added to those in the previous CRR and an analysis of risks included in DRR's was completed to determine if any should escalate to the CRR. This work identified a 'long list' of risks which were then considered by the Extended Leadership Team for continued relevance for the current CRR.
- 4.4 A risk workshop with the Extended Leadership Team resulted in further streamlining/combining of risks. A Risk Owner for each risk was identified and risk owners asked to review the risks and complete the risk register entry for their risks.
- 4.5 SLT then overviewed the resulting draft CRR which is attached to this report in Appendix A.
- 4.6 The Cabinet Member for Finance, Governance and Performance has also been consulted on the CRR.

5. **The Corporate Risk Register.**

- 5.1. The draft CRR is attached at Appendix A. Appendix A1 contains 18 risks (17 risks and 1 opportunity) and Appendix A2 records one 'issue' that have been recorded.
- 5.2. Appendix B provides an extract from the Risk Management Policy to remind the Committee of the risk matrix and scoring guidance parameters.

6. **The Next Stages**

- 6.1. As strategic planning processes are developed and strengthened, identification of risk to the achievement of the Council's strategic priorities and objectives needs to develop. The CRR will need to ensure it also reflects these risks. Risk identification processes are being developed alongside the planning processes to achieve this. Mapping of risks already identified to achievement of corporate objectives will also be beneficial.
- 6.2. Directorate risk registers are currently being reviewed in line with the new policy requirements. Strategic Directors and their leadership teams need to continually review these and escalate risks where appropriate to the CRR. Embedding the escalation and review processes will be key to improving risk management arrangements. The following is an extract from the policy that demonstrates the escalation and review process agreed.



7. Monitoring and Review

- 7.1 The CRR will be a working document, and will be monitored and updated to reflect work undertaken and any events that have arisen, and will be reported on a regular basis to SLT and Cabinet for their consideration. The Audit Committee will continue to receive the risk register twice a year to review and gain assurance that the Council is effectively managing its key risks.

8. Proposal

The Audit Committee review and comment upon the draft Corporate Risk Register (CRR) as a source of assurance that risk management arrangements are in place.

9. Other Options Considered

None necessary. Having robust risk management processes in place is a requirement of the City Council. The CRR has been developed in line with the new Risk Management Policy.

10. Risk Assessment

The new CRR will further develop risk management within the City Council, and help arrangements embed.

11. Public Sector Equality Duties

- 7a) 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.

7b) 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 – Draft Corporate Risk Register

- **A1 – Risk Register**
- **A2 – Issues Register**

Appendix B – Extract from Risk Management Policy re Risk Matrix and scoring guidance

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:

Risk Management Policy

Draft Corporate Risk Register

Negative Risks that offer a threat to Bristol City Council and its Strategic Aims (Aim - Reduce Level of Risk)

Ref CRR	Risk Description	Key Causes	Key Consequence	Status Open / Closed	Risk Category	Risk Owner	Key Mitigations	Direction of travel	Current Risk Level		Monetary Impact of Risk £k	Risk Tolerance			Actions to be undertaken		Escalation			Portfolio Flag	Audit Trail																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																	
									Likelihood	Impact		Risk Rating	Likelihood	Impact	Risk Rating	Date	(Include dates as appropriate)	Resp. Officer	Escalated to:		Escalated by:	Date	Date risk identified	Date Risk Closed	Closed by:	Amends / Updates Completed Date:	By:																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																											

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CRR									Likelihood	Impact	Risk Rating		Likelihood	Impact	Risk Rating	Date	(Include dates as appropriate)	Resp. Officer	Escalated to:	Escalated by:	Date		Date risk identified	Date Risk Closed	Closed by:	Amends / Updates Completed	By:		
13	If there is a lack of leadership or management skills then this could impact on performance and the ability to deliver positive change.	1. Loss of experience managers. 2. New skills sets required to meet new challenges. 3. Poor communication regarding change and new initiatives. 4. Need to make savings / increase income.	1. Reduced management capacity. 2. Impact on performance and staff morale. 3. Public and member resistance to proposed changes. 4. Lack of clear leadership.	Open	Service Provision	John Walsh	1. A draft leadership framework has been developed and is currently out to consultation as part of the senior management restructure. This will articulate the ask of leaders in the new organisation and against which a performance management framework will be developed. 2. A leadership development programme is being planned that will underpin the emerging organisation values and leadership framework. This is designed to build leadership capability throughout the organisation and a development pathway to support aspiring leaders. 3. To support existing managers during the transition phase, confidential career coaching is being offered to all managers at risk during the senior management restructure; Occupational Health support in place to provide management advice and employee support. 4. Risk assessment process and CHaSMs in place to identify and monitor hazards, risks and appropriate actions. 5. Stress management training and stress risk assessment training available for managers and employees. 6. Workplace wellbeing initiatives being introduced and communicated. 7. Quarterly Corporate Health and Safety management reporting through CHaSMs to help identify compliance, issues.	Increased	4	5	20	2	5	10	30/10/2017	Senior Management Review to be completed. Leadership framework and leadership development plan currently in design and due for consideration by SLT and Exec Board during November. Coaching in place now.	J Walsh Sheph Griffin	CRR			Nov-17	Finance, Governance and Performance	Nov-17						
14	If the City Council fails to prepare for successful implementation of the General Data Protection Regulations (GDPR) then it may fail to fully comply with its statutory requirements.	1. Failure to plan for the implementation of the GDPR being introduced in May 2018. 2. Failure to invest in the required systems, equipment and posts required to implement these regulations. 3. Failure to train staff in the requirements of the regulations.	1. Risk of breaching the regulations, and being subject to penalties / fines. 2. Reputational risks. 3. Risk of increased costs due to a failure to plan, and implement required changes in time for the implementation of these regulations.	Open	Legal	Senior Information Risk Owner (SIRO)	1. Project team in place. 2. Formulated approach around the ICO 12 step plan 3. Project Manager and Project Resource appointed 4. Briefed DLTs and IAO workshops 5. Record of Processing Activities (ROPA's) 6. Regional working group 7. Newsletter 8. AsGDPR mailbox 9. Revised DP guidance 10. E-Learning package 11. Source page	Increased	2	7	14	Increased fines	1	3	3	01/05/2018	1. Regular reporting to SLT on progress against plan 2. Setting up of project steering group to oversee delivery	SIRO	CRR			Nov-17	Finance, Governance and Performance	Nov-17					
15	If the City Council inadequately responds to a significant civil emergency, then the impact of the event will be increased with a greater impact on people and businesses.	1. Major incidents due to factors such as fire, floods and subsidence. 2. Civil disorder or terrorist attack. 3. Major infrastructure failure. 4. Lack of preparation and foresight. 5. Lack of investment in preventative or responsive measures. 6. Lack of a contingency/business continuity plan. 7. Lack of effective communications. 8. Lack of skilled staff.	1. Increased risk to public safety if effective measures not put in place. 2. Increased impact post event if effective contingency and communication plans not in place. 3. Reduced chances of preventing incidents due to a lack of foresight or investment. 4. Increased risk to staff. 5. Financial implications. 6. Increased recovery time post event if effective plans not in place. 7. Reputational damage to the organisation and its leaders.	Open	Service provision	Allison Comley	1. Senior leaders have all completed 1 day civil emergency planning training 2. New processes in place for on call emergency managers 3. Plans tested in our response to Grenfell Tower 4. Business continuity plans being refreshed across key services 5. Additional investment made in emergency planning team	Increased	3	7	21	less than 3m	1	7	7	05/11/2017	1. Refresh of business continuity plans 2. Council wide group in place to lead this with directorate representatives	Jim Gilman & Allison Comley Dec 17	CRR			Nov-17	Nhoods	Nov-17					
	Safeguarding: The Council fails to ensure adequate safeguarding measures are in place, resulting in harm or death to a vulnerable adult or child.	1. Lack of compliance with procedures or legislation. 2. Poor information sharing. 3. Lack of capacity or resources to deliver safe practice 4. Ensuring we commission safe care for vulnerable adults, children and elderly	1. Culpable for harm or fatality of vulnerable person. 2. Litigation. 3. Financial costs. 4. Reputational damage. 5. Placing people in unsafe care	Open	Personal Safety	Terry Dafter(Adults) Jacqui Jensen (Childrens)	1. We are increasing capacity in the commissioning team to lead on monitoring quality in the care sector. This should allow us to work proactively where poor practice is identified. 2. Implementation of Children Services Improvement plan following Ofsted inspections. 3. Regular safeguarding Assurance Visits to internal settings 4. Effective City Safeguarding Boards for both Adults and Childrens	Stable	2	7	14	Potential claims and litigation.	2	7	14	2019/20	Adults and Childrens Major Change programmes (Better Lives and Strengthening Families respectively) launched led by City Council but involving all partners with a safeguarding responsibility.	Terry Dafter/Jacqui Jensen	CRR			Nov-17	Children and Young People Services/ Adult Social Care	Nov-17					
	Failure to Manage Asbestos	Funding for Contractor training has not been agreed and, therefore, the Asbestos Policy cannot be ratified.	1. Asbestos survey failures. 2. Asbestos exposure incidents putting the public and employees at risk of harm (serious ill-health/death). 3. Unlimited fines and custodial sentences for the employer. 4. Reputational risk.	Open	Personal Safety/ Reputation	Bill Edrich	1. Properties are surveyed prior to any work being undertaken by contractors. 2. Asbestos incidents are being reported via the Corporate health and safety accident/incident process. 3. There is a process for reporting Asbestos exposure incidents to the HSE via F2508 form (compliance with H&S law). 4. Asbestos incidents are investigated in-house and appropriate actions taken.	Increased	3	7	21	Unlimited fines and custodial sentences	2	7	14	30/10/2017	Request for funding for Contractor training. Agreed by 2nd tier Coordinator Group 20/10/17 - to access funding via L&D.	Gail Portingale	CRR	John Walsh		Nov-17	Finance, Governance and Performance	Nov-17					
Positive Risks that offer an opportunity to Bristol City Council and its Strategic Aims (Aim - Increase Level of Risk/ Opportunity)																													
Ref	Risk Description	Key Causes	Key Consequence	Status Open / Closed	Risk Category	Risk Owner	Key Mitigations	Direction of travel	Current Risk Level			Monetary Impact of Risk	Risk Tolerance			Actions to be undertaken		Escalation				Portfolio Flag	Audit Trail						
CRR									Likelihood	Impact	Risk Rating	£k	Likelihood	Impact	Risk Rating	Date	(Include dates as appropriate)	Resp. Officer	Escalated to:	Escalated by:	Date		Date risk identified	Date Risk Closed	Closed by:	Amends / Updates Completed Date:	By:		
18	If we were to invest more in the external market, to offer citizens alternative and independent solutions then pressure on BCC services/budget could reduce	1. Need to achieve savings, and enable more cost effective ways of delivering services. Some risk averse behaviour because we believe that we always have a duty to provide .	1. Requires new approach to services, recognising different ways to deliver services through separate agencies. 2. Potential to improve services amend reduce costs. 3. Risk associated with this approach will need to be managed.	Open	Service Delivery/ Financial	Terry Dafter	Under development		4	5	20	> ESK			0							Nov-17		Nov-17					

Draft Corporate Issue Register																							
Issues that are a threat to the Organisation and its Strategic Aims (Aim - Reduce impact of the issue)																							
Ref CIR	Issue	Cause	Consequence	Status Open / Closed	Issue Category	Issue Owner	Current Impact Rating	Monetary Impact of Issue	Action Plan in Place (Date Agreed))	Target Impact Rating	Target Date	Progress	Actions to be undertaken		Escalatio n			Portfolio Flag	Audit Trail				
								£k					(Include dates as appropriate)	Resp. Officer	Escalated to: DRR/CRR	Escalated by:	Date		Date issue identified	Date Issue Closed	Closed by:	Amends / Updates Completed Date:	By:
1	The City Council relies on a wide range of ICT software and hardware, some packages being outdated and others not working at an optimum level.	1. lack of long term investment. 2. Lack of affordable alternatives to older software packages. 3. Systems not delivering to expected levels. 4. Reduced staffing levels. 5. Reduced budgets preventing upgrades / rationalisation.	1. Disaster Recovery covers key business systems, but not all of the Councils Applications. 2. Downtime would result following a significant incident. 3. Increased risk of failure and inability to restore services and/or data in a timely manner due to obsolescence. 4. Potential efficiencies from improved systems not achieved. 5. Increased costs in the longer term.	Open	Service provision	Annabel Scholes	3	Approx 5,000 (Capital provision already in place for this)	Under development as part of Current State Assessment and Capital plan.	1	01/03/2019	Proposals under development for migration to cloud based services - this will reduce reliance on maintaining hardware up to date. An application strategy and plan will derive from our future state assessment this will seek to rationalise our application estate and inform a roadmap of migration.	Produce cloud migration plan - 31/01/2018 Complete cloud migration - 30/11/18 Complete future state assessment - 31/03/18	Ian Gale				Finance, Governance and Performance	Nov - 17				
Positive Issues that offer an opportunity to the Organisation and its Strategic Aims (Aim - Increase Level of Risk / Opportunity)																							
Ref CIR	Issue	Cause	Consequence	Status Open / Closed	Issue Category	Issue Owner	Current Impact Rating	Monetary Impact of Issue	Action Plan in Place	Target Impact Rating	Target Date	Progress	Actions to be undertaken		Escalatio n			Portfolio Flag	Audit Trail				
								£k					(Include dates as appropriate)	Resp. Officer	Escalated to: DRR/CRR	Escalated by:	Date		Date issue identified	Date Issue Closed	Closed by:	Amends / Updates Completed Date:	By:
	None																						

Extract from Risk Mangement Policy

Appendix B

Risk Matrix

Level of Strategic Risk

Likelihood	4	4	12	20	28
	3	3	9	15	21
	2	2	6	10	14
	1	1	3	5	7
Likelihood x Impact = Overall Risk level		1	3	5	7
Impact					

Likelihood Guidance

Likelihood	Likelihood Ratings			
	1	2	3	4
Description	Might happen on rare occasions	Will possibly happen, possibly on several occasions	Will probably happen, possibly at regular intervals	Likely to happen, possibly frequently
Numerical Likelihood	Less than 10%	Less than 50%	50% or more	75% or more

Severity of Impact Guidance

N.B. Risk to be assessed against all of the Categories, and the highest score used in the matrix.

Impact Category	Impact Levels			
	1	3	5	7

Service provision	Very limited effect (positive or negative) on service provision. Impact can be managed within normal working arrangements	Noticeable and significant effect (positive or negative) on service provision. Effect may require some additional resource, but manageable in a reasonable time frame.	Severe effect on service provision or a Corporate Strategic Plan priority area. Effect may require considerable additional resource but will not require a major strategy change.	Extremely severe service disruption. Significant customer opposition. Legal action. Effect could not be managed within a reasonable time frame or by a short term allocation of resources, and may require major strategy changes. The Council risks 'special measures' Officer / Member forced to resign.
Communities	Minimal impact on community	Noticeable (positive or negative) impact on the community or a more manageable impact on a smaller number of vulnerable groups / individuals which is not likely to last more than six months.	A more severe but manageable impact (positive or negative) on a significant number of vulnerable groups / individuals which is not likely to last more than twelve months.	A lasting and noticeable impact on a significant number of vulnerable groups / individuals.
Environmental	No effect (positive or negative) on the natural and built environment.	Short term effect (positive or negative) on the natural and or built environment.	Serious local discharge of pollutant or source of community annoyance that requires remedial action.	Lasting effect on the natural and or built environment.
Financial Loss / Gain	Under £0.5m	Between £0.5m - £3m	Between £3m - £5m	More than £5m
Fraud & Corruption Loss	Under £50k	Between £50k - £100k	Between £100k - £1m	More than £1m
Legal	No significant legal implications or action is anticipated	Tribunal / BCC legal team involvement required (potential for claim)	Criminal prosecution anticipated and / or civil litigation.	Criminal prosecution anticipated and or civil litigation (> 1 person)
Personal Safety	Minor injury to citizens or colleagues.	Significant injury or ill health of citizens or colleagues causing short-term disability / absence from work.	Major injury or ill health of citizens or colleagues may result in long term disability / absence from work.	Death of citizen(s) or colleague(s). Significant long-term disability / absence from work.

Programme / Project Management <i>(Including developing commercial enterprises)</i>	<p>Minor delays and/or budget overspend, but can be brought back on schedule with this project stage.</p> <p>No threat to delivery of the project on time and to budget and no threat to identified benefits / outcomes.</p>	<p>Slippage causes significant delay to delivery of key project milestones, and/or budget overspends.</p> <p>No threat to overall delivery of the project and the identified benefits / outcomes.</p>	<p>Slippage causes significant delay to delivery of key project milestones; and/or major budget overspends.</p> <p>Major threat to delivery of the project on time and to budget, and achievement of one or more benefits / outcomes.</p>	<p>Significant issues threaten delivery of the entire project.</p> <p>Could lead to project being cancelled or put on hold.</p>
Reputation	<p>Minimal and transient loss of public or partner trust. Contained within the individual service.</p>	<p>Significant public or partner interest although limited potential for enhancement of, or damage to, reputation.</p> <p>Dissatisfaction reported through Council Complaints procedure but contained within the Council.</p> <p>Local MP involvement.</p> <p>Some local media/social media interest.</p>	<p>Serious potential for enhancement of, or damage to, reputation and the willingness of other parties to collaborate or do business with the council.</p> <p>Dissatisfaction regularly reported through Council Complaints procedure.</p> <p>Higher levels of local or national interest.</p> <p>Higher levels of local media / social media interest.</p>	<p>Highly significant potential for enhancement of, or damage to, reputation and the willingness of other parties to collaborate or do business with the council.</p> <p>Intense local, national and potentially international media attention.</p> <p>Viral social media or online pick-up.</p> <p>Public enquiry or poor external assessor report.</p>

Risk Scores – Required Action and Escalation:

Negative Risks (Threats)	
Level	Actions Required
1 - 5	Low: May not need any further action / monitor at the service level.
6 - 12	Medium: Action required, manage and monitor at the Directorate level.
14-21	High: Must be addressed – if Directorate level consider escalating to the Corporate Risk Register, if Corporate consider escalating to the Cabinet Lead.

28	Critical: Action required - escalate (if a Directorate level risk, escalate to the Corporate Level, if Corporate bring to the attention of the Cabinet Lead to confirm action to be taken).
Positive Risks (Opportunities)	Where the risk is an opportunity, a cost benefit analysis is required to determine whether the opportunity is worth pursuing, guided by the score for the matrix, e.g. an opportunity with a score of 28 would be pursued as it would offer considerable benefits for little risk.

Audit Committee

23rd November 2017



Report of: Interim Chief Internal Auditor

Title: Internal Audit Quality Assurance Improvement Programme

Ward: N/A

Officer Presenting Report: Jonathan Idle – Interim Chief Internal Auditor

Contact Telephone Number: 0117 92 22452

Recommendation

The Audit Committee to approve the Internal Audit Quality Assurance and Improvement Programme (QAIP).

Summary

In accordance with the Public Sector Internal Audit Standards (PSIAS), Internal Audit is required to maintain a QAIP and report against it in its Annual Report to the Committee.

This QAIP is presented to the Audit Committee for consideration and approval, as required by the PSIAS.

Significant Matters Arising:

- The outlining of the internal and external quality assurance mechanisms for the Internal Audit service.
- The QAIP is provided at Appendix A to this report.

1. Policy

The PSIAS require the Internal Audit service within the organisation to set out its quality assurance arrangements in the form of a QAIP. The monitoring of performance against the QAIP must be assessed and reported to the Audit Committee on an annual basis.

2. Consultation

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

3. Context

3.1 The PSIAS sets out the requirement for a QAIP:

“The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of internal audit activity.”

3.2 The proposed QAIP sets out how this process will work. Reporting against the QAIP will be included in the Annual Internal Audit report.

4. Proposal

4.1 The Audit Committee considers and approves the updated Internal Audit QAIP.

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. The PSIAS provide for an effective independent and objective Internal Audit Service, ensuring a good standard of service to the organisation, whilst at the same time providing the Internal Audit Service with wider support in terms of maintaining its independence and freedom from influence.

Public Sector Equality Duties

7a) 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.

7b) 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 Quality Assurance and Improvement Programme

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:

Public Sector Internal Audit Standards.



Internal Audit Quality Assurance and Improvement Programme (QAIP)

1	Introduction	1
2	Internal Assessments	1
3	External Assessments	3
4	Review of the QAIP	3

1 Introduction

1.1 Internal Audit's Quality Assurance and Improvement Programme (QAIP) is designed to provide reasonable assurance to the various stakeholders of the service that Internal Audit:

- Performs its work in accordance with its Charter, which is consistent with the Public Sector Internal Audit Standards (PSIAS);
- Operates in an effective and efficient manner; and
- Is perceived by stakeholders as adding value and continually improving its operations.

1.2 Internal Audit's QAIP covers all aspects of Internal Audit activity in accordance with the PSIAS Standard 1300 (Quality Assurance and Improvement Programme), including:

- Monitoring the Internal Audit activity to ensure it operates in an effective and efficient manner (1300);
- Ensuring compliance with the PSIAS' Definition of Internal Auditing and Code of Ethics (1300);
- Helping the Internal Audit activity add value and improve organisational operations (1300);
- Undertaking both periodic and on-going internal assessments (1311); and
- Commissioning an external assessment to the Audit Committee at least once every five years, the results of which are communicated to the Audit Committee (1312 & 1320).

1.3 The Chief Internal Auditor and Head of Internal Audit are ultimately responsible for the QAIP, which covers all types of Internal Audit activities, including consulting.

2 Internal Assessments

2.1 In accordance with the PSIAS Standard, internal assessments are undertaken through both on-going and periodic reviews.

On-going Reviews

2.2 Continual assessments of quality are undertaken via:

- Management supervision of all engagements;
- Structure, documented review of working papers and draft reports by Internal Audit management;
- Feedback from audit clients obtained through post audit questionnaires at the closure of each engagement (Appendix A);
- Monitoring of internal performance targets (Appendix B) and annual reporting to the Audit Committee; and
- Review and approval of all final reports, recommendations and levels of assurance by the Head of Internal Audit.

Periodic Reviews

2.3 The Internal Audit service operates to a Charter that mandates compliance with relevant professional standards and specifically the definition of Internal Auditing, the Code of Ethics and the PSIAS which is regularly reviewed.

2.4 Periodic assessments are designed to evaluate conformance with these standards and are conducted via:

- Quarterly Progress Reports to the Audit Committee which includes progress against the annual plan, reports issued during the period including details of the opinion and summaries of key issues and outcomes from the work undertaken in the period;
- Annual Satisfaction Surveys to key stakeholders (Appendix C);
- Annual self-assessment of conformance with PSIAS;
- Annual review of compliance against the requirements of the QAIP, the results of which are reported to senior management and the Audit Committee;
- Feedback from the s.151 Officer and Chair of the Audit Committee to inform the annual appraisal of the Chief Internal Auditor / Head of Internal Audit in accordance with Standard 1100; and
- Periodic Skills and Competency exercise for each Internal Auditor.

2.5 Significant areas of non-compliance with PSIAS identified through internal assessment will be reported in the Internal Audit Annual Report and used to inform the Annual Governance Statement.

- 2.6 Results of internal assessments will be reported to the Audit Committee at least annually. The Chief Internal Auditor / Head of Internal Audit will implement appropriate follow-up to any identified actions to ensure continual improvement of the service.
- 2.7 The Chief Internal Auditor / Head of Internal Audit will also periodically identify improvement requirements, for example in respect of audit planning, assurance mapping, audit processes, counter fraud, skills development for the team, audit profile and performance.

3 External Assessments

- 3.1 An external assessment will occur at least once every five years to ensure continued application of professional standards. This process will express an opinion about Internal Audit's conformance with the Standards, Definition of Internal Audit and Code of Ethics and include recommendations for improvement, as appropriate.
- 3.2 The appointment of the External Assessor and scope of the External Assessment will be approved by the Audit Committee.
- 3.3 The external assessment will consist of a broad scope of coverage that should include the following elements of Internal Audit activity:
- Conformance with the Standards, Definition of Internal Auditing, the Code of Ethics, and Internal Audit's Charter, plans, policies and practices;
 - Expectations of Internal Audit as expressed by senior management and operational management;
 - Tools and techniques used by Internal Audit;
 - The mix of knowledge, experiences and disciplines within the team; and
 - Whether Internal Audit adds value and improves the organisation's operations.
- 3.4 Results of external assessments will be reported to the Audit Committee at the earliest opportunity following receipt of the external assessors report. The external assessment report will be accompanied by a written action plan in response to significant comments and recommendations identified. Any significant areas identified of non-conformance will be reported in the Annual Internal Audit Report.

4 Review of the QAIP

- 4.1 This document will be reviewed at least on an annual basis.

Appendix A

Quality Assurance Questionnaire

Internal Audit is continuously looking at ways of improving the quality of service which we provide. Please could you complete this questionnaire to help us ensure that the service we provide is of the highest possible standard.

Evaluation

1. Overall evaluation of the audit in terms of added value to your business area and improving control / performance.
2. The level of consultation during the audit including the opportunity to comment on the scope.
3. The audit was carried out effectively with minimum disruption.
4. The auditor(s) were professional, objective and worked well with your team.
5. The final report was clear. Concise, addressed key issues, and was issued in a timely manner.

If you have marked any of the questions above as Poor or just adequate, please could you take a moment to detail why below:

Your views on any ways in which Internal Audit could be improved, observations on the manner or general approach in which the audit was conducted, and any areas which could benefit from future audit reviews would be appreciated.



Appendix B

Performance Targets 2017/18*

Type	Description	Narrative	Target
Outputs	Audit Coverage	% of Audit Plan Delivered.	90%
	Counter Fraud	No. of Tenancies Recovered	37
	Audit Recommendations	Level of Recommendation Implementation.	90%
Quality	Client Satisfaction	% of Quality Assurance Questionnaires in which management have responded as "Very Good" or "Good".	85%
	Management Perception	% of Positive Responses in respect of perceived benefits and value of Internal Audit work.	90%
Compliance	Public Sector Internal Audit Standards (PSIAS) Compliance	Level of Compliance with PSIAS.	100%

- Performance Targets are also currently subject to review, for example in respect of monitoring the periods taken to produce draft and final reports.
- Additionally, a performance indicator for the Finance Department exists relating to the percentage of Financial Audits providing a reasonable level of assurance. This, however, is not a measure of Internal Audit performance.

Appendix C

Senior Management Satisfaction Questionnaire 2017/18

Please tick or 'X' the relevant box	✓	✓	✓	✓	✓
To what extent do you agree or disagree that the Internal Audit Service:	Strongly Agree	Agree	Neither	Disagree	Strongly Disagree
1. Understands your organisation, its needs and objectives.					
2. Works with your organisation to assist you in achieving your objectives and managing your risks.					
3. Consistently demonstrates competence and due professional care.					
4. Adds value with the work delivered.					
5. Is insightful, proactive and future-focused.					
6. Promotes and supports organisational improvement and transformation.					
7. Provides timely reports which are of a high standard and meet your needs.					
8. Enables benchmarking and the sharing of good practice, solutions and experience across Bristol City Council.					
9. Demonstrates quality and continuous improvement in the Audit service.					
10. Has provided an effective service for the Council in 2017/18.					
Comments					

Audit Committee

23rd November 2017



Report of: Interim Chief Internal Auditor

Title: Internal Audit Updated Charter, Terms of Reference and Strategic Statement

Ward: N/A

Officer Presenting Report: Jonathan Idle – Interim Chief Internal Auditor

Contact Telephone Number: 0117 92 22452

Recommendation

The Audit Committee to approve the updated Internal Audit Charter, Terms of Reference and Strategic Statement.

Summary

In accordance with the Public Sector Internal Audit Standards (PSIAS), Internal Audit is required to document the purpose, authority and responsibilities of the activity in the form of a Charter. The Charter sets out how the Service will comply with the PSIAS, and its place within the organisation, particularly in relation to the Chief Internal Auditor's reporting line within the organisation management hierarchy.

This updated Charter is presented to the Audit Committee for consideration and approval, as required by the PSIAS.

Significant Matters Arising:

- The addition of an Internal Audit Mission Statement at paragraph 2.2 of Appendix A
- The insertion of processes in the event of the impairment to the independence of Internal Audit (paragraph 7.3 / 7.4 of Appendix A.)
- The expansion of the responsibilities incumbent on the Council's senior management/officers at paragraph 5.2 of Appendix A
- The updated Charter is provided at Appendix A to this report



1. Policy

The PSIAS require the Internal Audit service within the organisation to define its role, responsibilities and authority in the form of a Charter, which includes an explanation of the way in which the internal audit function will comply with the PSIAS. Compliance with the PSIAS must be assessed and reported to the Audit Committee on an annual basis.

2. Consultation

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

3. Context

- 3.1 The Internal Audit Charter, Terms of Reference and Strategic Statement defines the purpose, authority, scope and responsibility of the Internal Audit service and is consistent with the mandatory requirements of the Public Sector Internal Audit Standards (PSIAS) and the supporting Local Authority Guidance Note (LGAN) produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA). It also meets the PSIAS requirement for Internal Audit's risk-based plan to incorporate or link to a strategic or high-level statement.

It is the responsibility of the Chief Internal Auditor to ensure that the Charter is reviewed each year in order to confirm the Service's compliance with the requirement as detailed in the Charter, as well as to maintain the Charter's relevance to both the Internal Audit Service and the organisation as a whole.

The Charter, Terms of Reference and Strategic Statement as provided at Appendix A, is one such update, with particular relevance as the PSIAS have been updated in 2017.

3.2 Key Changes to the Charter, Terms of Reference and Strategic Statement:

- An Internal Audit Mission Statement has been added at (Paragraph 2.2 of Appendix A)
- Minor changes have been made to ensure the Charter's relevance to the Council at this time, these include:
 - Removal of the title ' Chief Executive/City Director'
 - Revision of title ' Service Manager' to 'Head of Service'
 - Realignment of responsibilities from Chief Executive to Head of Paid Service
- Senior Management/Officer Responsibilities have been added at (5.2), which documents the expectation the Internal Audit Service has of the Management/Officers of the Council, as a pre-requisite to a fully consulted on Service Level Agreement between the Internal Audit service and the Council going forward.
- Insertion of process in the event of impairment of the independence of Internal Audit (7.3) and of arrangements to report to Committee if there are requests to undertake any additional roles / responsibilities outside of Internal Auditing (7.4).

4. Proposal

- 4.1 The Audit Committee considers and approves the updated Internal Audit Charter, Terms of Reference and Strategic Statement.

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. The PSIAS provide for an effective independent and objective Internal Audit Service, ensuring a good standard of service to the organisation, whilst at the same time providing the Internal Audit Service with wider support in terms of maintaining its independence and freedom from influence.

Public Sector Equality Duties

- 7a) 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.
- 7b) 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 Updated Charter, Terms of Reference and Strategic Statement

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:

Public Sector Internal Audit Standards.



INTERNAL AUDIT CHARTER, TERMS OF REFERENCE AND STRATEGIC STATEMENT

1. **Introduction:**

- 1.1 The Head of Paid Service and the s151 Officer are responsible for maintaining an effective and appropriately resourced internal audit function, in line with the Accounts and Audit Regulations (2015). The regulations specifically require that *“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, and taking into account public sector internal auditing standards or guidance”*.
- 1.2 This Internal Audit Charter, Terms of Reference and Strategic Statement defines the purpose, authority, scope and responsibility of the Internal Audit service and is consistent with the mandatory requirements of the Public Sector Internal Audit Standards (PSIAS) and the supporting Local Authority Guidance Note (LGAN) produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA). It also meets the PSIAS requirement for Internal Audit’s risk-based plan to incorporate or link to a strategic or high-level statement.

2. **Definition of Internal Audit and the Objectives of the Service:**

- 2.1 The definition of Internal Audit is a mandatory part of PSIAS and is as follows:

“Internal Audit is an independent, objective assurance and consulting function that is designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluating, reporting on and recommending improvements where necessary to secure effective risk management, control and governance processes.”
- 2.2 The mission of the Internal Audit Service is to *“Promote and support the Council’s vision for the City of Bristol and values for the organisation, by providing independent, risk-based and objective assurance, fraud/irregularity investigation where appropriate, advice and insight”*
- 2.3 Internal Audit must comply with the Public Sector Internal Audit Standards (PSIAS) which became mandatory across the UK public sector from the 1 April 2013 and were further updated in April 2017. The purpose of the PSIAS is to define the nature of internal auditing within the UK public sector, set basic principles for carrying out internal audit, establish a framework for providing internal audit services and establish the basis for the evaluation of internal audit performance and to drive improvement planning.

- 2.4 The work of Internal Audit forms an essential part of the assurance framework in place which informs management when considering and compiling the Annual Governance Statement. However, the existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

3. *Scope of Internal Audit:*

- 3.1 The scope for Internal Audit work includes the whole control environment comprising risk management, internal control and governance. This effectively means that Internal Audit has independent oversight of all of the Council's operations, resources, services and processes in place to:

- Establish and monitor the achievement of Council objectives
- Identify, assess and manage the risks to achieving the Council's objectives
- Facilitate policy and decision making
- Ensure the economical, effective and efficient use of resources
- Ensure compliance with established policies, procedures, laws and regulations
- Safeguard assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption
- Ensure the integrity and reliability of information, accounts and data, including internal and external reporting.

- 3.2 Where the scope of the audit work extends to services provided through partnership arrangements, the Chief Internal Auditor will decide, in consultation with all parties, whether Internal Audit staff conducts the work to derive the required assurance themselves or rely on the assurances provided by other auditors. Where necessary the Chief Internal Auditor will agree the appropriate access rights in order to obtain the necessary assurances.

- 3.3 Where the Chief Internal Auditor considers that the scope of audit work is being restricted, the s151 Officer and the Audit Committee will be advised of this.

4. *Authority:*

- 4.1 Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is authorised to have full, free and unrestricted access to any and all Council records (whether manual or computerised systems), personnel, cash, stores, other assets and premises, including those of partner organisations, where appropriate and have authority to obtain such information and explanations as considered necessary to fulfil Internal Audit responsibilities.

4.2 The Accounts and Audit Regulations (England) 2015 provide that:

Any officer or member of that body must, if the body requires:

- (a) make available such documents and records as appear to that body to be necessary for the purposes of the audit; and
- (b) supply the body with such information and explanation as that body considers necessary for that purpose.

4.3 All Directorates of the Council, or partners/agents contracted to provide services on its behalf, are required to give complete co-operation to Internal Audit staff for the expedient fulfilment of the audit process.

5. *Definitions and Responsibilities of Officers and the Council in Relation to Internal Audit:*

5.1 *Definitions:*

For the purpose of this Charter, Terms of Reference and Strategic Statement the following definitions apply:

- *The Board* is the Audit Committee - those charged with independent assurance on the adequacy of the Council's risk management framework, the internal control environment and the integrity of financial reporting arrangements. This includes oversight of the internal audit function and its activity
- *Head of Paid Service* - is the Group Director: Resources- who has responsibility for ensuring good governance, risk management and internal control arrangements exist and operate
- *Senior Management is the Senior Leadership Team (SLT)* - those responsible for the leadership and the direction of the Council. Senior Management are also responsible for ensuring that internal control, risk management, and governance arrangements are sufficient to address the risks facing their Directorates and Services including the risk of fraud and corruption
- *Section 151 Officer* - is the Service Director: Finance - the s151 Officer is responsible for: ensuring lawfulness and financial prudence of decision making; providing financial advice; internal control; risk management; setting financial standards; and ensuring key financial controls are in place to secure sound financial management; ensuring there is adequate and effective internal audit service
- *Monitoring Officer* - is the Head of Legal Services – responsible for maintaining the Constitution; ensuring lawfulness and fairness of decision making; providing legal advice; and conducting member investigations. As such the Monitoring officer works closely with internal audit on governance matters.

5.2 ***Senior Management/Officer Responsibilities:***

The responsibilities Senior Management/Officer are summarised below:

- Engagement in the Internal Audit planning process – providing insight into high risk areas within the respective directorates
- Nomination of responsible officers for all planned and ad-hoc internal audit reviews
- Timely engagement and clearance of relevant Terms of Reference, Audit queries, Draft and Final reports. Timely being defined as within a two week timeframe unless otherwise defined and/or agreed
- Engagement with the Internal Audit follow-up process, providing evidence of recommendation implementation as and when implementation is achieved, should this be before a planned follow-up has commenced or after the follow-up has been completed.

5.3 ***Internal Audit responsibilities:***

The responsibilities incumbent on the Internal Audit Service are summarised below:

- Formulation and delivery of an annual internal audit plan which will enable the Chief Internal Auditor to provide management and the Audit Committee with the required objective opinion on the internal control, governance and risk management arrangements in place across the Council to inform the Annual Governance Statement
- Support of the S151 officer in discharging their statutory duties
- Reporting significant risk exposures and control issues identified to management and the Audit Committee, including fraud risks, governance issues, and other matters and making recommendations for improvement
- Ensuring the Council has a robust and proactive approach to fraud identification and investigation, investigating alleged frauds and other irregularities
- The review and certification of grant/funding claims as required
- Providing reports to the Audit Committee to enable it to discharge its duties
- Communicating risk and control information to the appropriate officers across the Council, whilst providing expertise and guidance in the matter of risk management

- Facilitating the establishment of assurances in support of the Annual Governance Statement
- Raising awareness of internal control, risk management and governance across the Council
- Undertake ad-hoc audit reviews, as required by senior management.

6. *Accountability:*

- 6.1 Internal Audit is located within the Resources Directorate. The Chief Internal Auditor is line managed by the Service Director – Finance (s151) who monitors the performance of the Chief Internal Auditor and the audit function. The Service Director – Finance is an SLT member in their own right, as is the Head of Legal Services. These management arrangements meet the CIPFA expectation that the Chief Internal Auditor should be line managed by a member of the SLT.
- 6.2 The Chief Internal Auditor has unfettered access to the members of the SLT. The Audit Committee should also have input into the Chief Internal Auditor's annual appraisal.
- 6.3 The Chief Internal Auditor reports functionally to the Audit Committee in terms of approving the Internal Audit Charter, Terms of Reference and Strategic Statement and risk based plan; reviewing the Internal Audit's performance and effectiveness and receiving the Chief Internal Auditor's Annual Report and other reports.
- 6.4 The Chief Internal Auditor has direct access to the Chair of Audit Committee and has the opportunity to meet with the Audit Committee in private.

7. *Independence and Objectivity:*

- 7.1 Internal Audit is independent of the activities that it audits to ensure the unbiased judgements essential to its proper conduct and impartial advice to management. The Chief Internal Auditor reports to the Audit Committee, on a regular basis, on the organisational independence of the Internal Audit service.
- 7.2 Internal Audit operates within a framework that allows unrestricted access to senior management and Council, particularly the Mayor, the Chair of the Audit Committee, the Head of Paid Service and the SLT. The Chief Internal Auditor reports in their own name to the SLT and the Audit Committee.
- 7.3 Should the independence or objectivity of the Internal Audit service be impaired in fact or appearance, the Chief Internal Auditor will disclose details of the impairment to the S.151 Officer and / or Chair of the Audit Committee depending upon the nature of the impairment.

- 7.4 When requested to undertake any additional roles / responsibilities outside of Internal Auditing, the Chief Internal Auditor must highlight to the Audit Committee any potential or perceived impairment to independence and objectivity having regard to the principles contained within the Code of Ethics. The Audit Committee must approve and periodically review any safeguards put in place to limit impairments to independence and objectivity.
- 7.5 As far as practicable, Internal Audit does not participate in the day to day operation of any systems without agreement of the Audit Committee. However, in strict emergency situations only, Internal Audit staff may be called upon to carry out operational work.
- 7.6 Where non-audit work, or consultancy work, is requested or required, the Chief Internal Auditor ensures that there are no conflicts of interest arising from undertaking the non-audit work, or consultancy work and if necessary makes alternative arrangements for internal audit review of any area where such a conflict exists.
- 7.7 Where new colleagues join Internal Audit from a different part of the Council, they do not complete audit work in their previous area of responsibility for a period of at least 1 year.
- 7.8 Internal Audit has responsibility for collating assurances in support of the Council's Annual Governance Statement; for drafting the Statement and for facilitating management review. The Chief Internal Auditor does not have line management responsibility for those staff involved in governance processes and does not consider that the responsibilities in respect of the Annual Governance Statement restrict the ability to report objectively on governance.
- 7.9 The Chief Internal Auditor has line management responsibility for the workforce members that administer the Council's Corporate Risk Register and provide support and guidance to Council colleagues on risk management. This provides a potential conflict of interest in Internal Audit reporting objectively on the existence and operation of risk management in the Council. To counterbalance this, the Chief Internal Auditor will commission periodic assurance reviews over risk management from an independent external third party.

8. *Ethics:*

- 8.1 To enhance the environment of trust between Internal Audit and management, all staff involved in the delivery of Internal Audit services complies with the Code of Ethics laid down in the PSIAS. Staff induction and training ensures all staff are aware of this requirement. Additionally, many Internal Audit staff are bound by the ethical codes of the professional bodies they have qualified with and all are bound by the Council's own Code of Conduct for employees. Fundamentally, the following ethical standards are observed:

- Integrity - performing work with honesty, diligence and responsibility
- Objectivity - making a balanced assessment of all the relevant circumstances, not unduly influenced by personal interests or by others in forming judgements
- Confidentiality - respecting the value and ownership of information obtained and not disclosing information without appropriate authority, unless there is a legal or professional obligation to do so
- Competence and due professional care - applying the knowledge, skills and experience needed in the performance of work.

8.2 Internal Auditors are required to complete a Declaration of Interest every two years to ensure that any interests are known by management and safeguards can be put in place as required. Additionally, they are required to declare any potential conflicts of interest at the start of an audit assignment.

9. *Internal Audit Activities:*

Internal Audit Plan

- 9.1 The primary task of Internal Audit is to review the systems of governance, risk management and internal control operating throughout the Council and in this a predominantly risk based approach to assessing controls is adopted.
- 9.2 A risk based plan of internal audit work is prepared annually and reviewed quarterly. The plan is derived from a risk assessment which is informed by the views of management, the Council's risk registers, performance management reports and the assurance framework.
- 9.3 The audit plan is discussed with the SLT and the s151 Officer before review and approval by the Audit Committee. The SLT is provided with details of the annual plan for information. The audit plan is reviewed quarterly to ensure that it reflects current risks. Any significant changes to the agreed plan are reported to the Audit Committee through the periodic activity reporting process.

Audit and Assurance Reviews

- 9.4 For each audit assignment within the annual audit plan, a 'Terms of Reference' is drawn up and shared with the relevant managers. The Terms of Reference identifies the key risks to the achievement of Council objectives and identifies the scope of the work being carried out.
- 9.5 During the course of the audit, key issues are brought to the attention of the relevant manager to enable them to take corrective action. On completion of the audit, Internal Auditors communicate the results of the audit to the relevant Head of Service.

- 9.6 The completion of each planned assignment leads to individual reports to Heads of Service, Service Directors and Group Directors and these include an opinion on the control framework in place to manage the risks in the area reviewed. These opinions, together with other knowledge of issues identified in other audit work, assist the Chief Internal Auditor in providing an overall opinion on the control environment to management for the Annual Governance Statement.

Fraud and Irregularity work

- 9.7 Internal Auditors plan and evaluate their work to have a reasonable chance of detecting fraud; however the managing of the risk of fraud and corruption is the responsibility of management.
- 9.8 The Council's Anti-Fraud, Bribery and Corruption Policy requires the Chief Internal Auditor to be informed of all suspected or detected fraud. A fraud risk assessment is performed on all suspected or detected fraud which determines whether the irregularity is investigated by Internal Audit or by the relevant directorate with support from Internal Audit where required.
- 9.9 Investigation of fraud and corruption is carried out in compliance with statutory requirements and the fraud investigation protocol, by staff with the necessary skills to do so.
- 9.10 In addition to determining the extent of the fraud, attention is given to correction of any control failures to prevent recurrence of the fraud.
- 9.11 As well as responding to incidents of fraud and corruption, Internal Audit staff maintains and deliver a programme of pro-active fraud prevention and detection work including national initiatives to prevent and detect fraud and testing of priority fraud risk areas.

Risk Management and Governance Work

- 9.12 A programme of work is undertaken to enhance understanding of effective risk management across the Council and embed a culture of appropriate risk taking.
- 9.13 As well as reviews of governance processes included in the risk based plan, Internal Audit currently lead on the Annual Governance Review across the Council including the gathering of assurances and the preparation of the Annual Governance Statement.

Consultancy Reviews as Requested/Required

- 9.14 Internal Audit provides both statutory and discretionary services. Discretionary services provided by Audit are a form of consultancy. These services may be on request by management or the Council, or recommended by Internal Audit. Each of these reviews has a clearly defined and agreed Terms of Reference with agreed timescales for completion of the work and agreed reporting format.

- 9.15 In addition to planned audit reviews, Internal Audit offer advice on the internal control implications of new systems being implemented across the Council, as well as guidance and advice with regard to transformation projects within the Council.
- 9.16 The Chief Internal Auditor ensures that no conflicts of interest arise from undertaking any consultancy work by reviewing the scope of the work to be undertaken and maintaining Internal Audit's independence from management functions.
- 9.17 Where significant consultancy reviews are commissioned in year, outside of the approved plan, then Audit Committee approval is sought in advance.

External Clients

- 9.18 Internal Audit provides internal audit services and assurances to a number of public sector clients including the Avon Fire & Rescue Services and Academies. Further assurance and consultancy work has also arisen from the Trading with Schools function.

10. Resources and Skills:

- 10.1 In order to ensure an adequate and effective internal audit service is maintained, Internal Audit must have adequate budgetary resources to maintain organisational independence and be appropriately staffed in terms of numbers and skills. The Chief Internal Auditor is responsible for ensuring that resources and skills in the audit team are in place. Where resources available are felt to be insufficient to deliver the annual audit plan, the Chief Internal Auditor will advise the s151 Officer and the Audit Committee of this.
- 10.2 The staffing structure of Internal Audit is divided into two key areas:
- *Assurance* – dedicated to delivering the planned and unplanned assurance work
 - *Fraud and Value for Money* – dedicated to both pro-active anti-fraud risk work and responding to fraud and irregularity reported to Internal Audit
- 10.3 Internal Audit establishment is comprised of a mixture of qualified accountants, auditors and fraud investigators as well as a number of trainee posts. These include general audit skills in respect of reviews of internal control, risk and governance and appropriate specialism in areas such as computer audit, contract audit and investigation of fraud.
- 10.4 Where audits require access to specialist expertise and knowledge that is not available within the audit team, the advice of specialist experts from within the Council, or, as necessary, externally is sought.
- 10.5 A continuous review of training and development required for all Internal Audit staff is undertaken as part of the Corporate performance framework. These requirements are developed into a Training Strategy with a specific resource for training and development earmarked in the annual audit plan.

11. *Reporting; Follow Up and Escalation Procedures:*

- 11.1 Following the completion of all audit assignments an internal audit report is issued containing an opinion on the control environment. The report identifies concerns and prioritises recommended improvement actions based on the level of risk resulting from the control weakness. The appropriate Head of Service, Service Director and/or Group Director is asked to respond to the report agreeing, or otherwise, to implement the recommendations and assigning responsibility and time-scales for doing so.
- 11.2 Where the overall level of risk to the Council is significant, the implementation of recommendations is followed up in line with the follow up and escalation procedure established by the Chief Internal Auditor.
- 11.3 Under the escalation element of this procedure, any high or medium recommendations which are either not accepted or not implemented are reported on a quarterly basis to the Directorate Leadership Team relevant to the area reviewed, repeated failure to implement is then reported to SLT and the Audit Committee, who may call the appropriate manager to account for the failure to correct the control environment.
- 11.4 The Chief Internal Auditor routinely reports to the Audit Committee providing Activity Reports to every meeting, together with an annual report of Internal Audit activity with details of significant control issues identified by audit work. The annual report provided by the Chief Internal Auditor includes the required opinion on the risk management and control arrangements in place and as such is an essential assurance to management in making their Annual Governance Statement.

12. *Performance:*

- 12.1 The PSIAS require the Chief Internal Auditor to have a performance management and quality assurance framework in place to demonstrate that the Internal Audit Service.
- Meets its aims and objectives
 - Meets internal quality standards
 - Is effective, efficient and continuously improving
 - Is adding value and assisting the organisation in achieving its objectives.
- 12.2 The performance, quality and effectiveness of Internal Audit is measured in a suite of performance indicators which are maintained locally and reported to the Audit Committee. These include qualitative targets concerning auditee feedback in the form of Quality Assurance Questionnaire scores which are issued to auditees following the completion of each audit.
- 12.3 Internal audit operates a system of close supervision of audit work and management review of audit files to ensure each audit has been completed to standard. Audit reports are signed off by the Chief Internal Auditor prior to issue.

- 12.4 Internal Audit continually self-assesses its performance against achievement of its aims and objectives. It also benchmarks key elements of its service. The PSIAS requires Internal Audit to put in place a Quality Assurance and Improvement Programme (QAIP) including periodic self-assessments and externally validated self-assessments against compliance with the PSIAS. A formal action plan is prepared following each self-assessment.
- 12.5 The external validation of Internal Audit's self-assessment against PSIAS is undertaken through a peer review programme with Core City Local Authorities. This provides assurance over the effectiveness of Internal Audit and also an opportunity to benchmark and share good practice across comparable services.
- 12.6 The outcomes of self-assessments and external validations are reported to the Audit Committee.

13. Collaboration and Liaison with Other Auditors

- 13.1 The External Auditor has a statutory duty to express an opinion on the Council's financial statements and a Value for Money opinion on its arrangements for securing economy, efficiency and effectiveness. In doing so, there is potential for duplication of work completed by Internal Audit, particularly now that International Standards for Auditing (which apply to External Auditors) require a more detailed understanding of systems. Wherever possible, the Chief Internal Auditor seeks to co-ordinate the work of Internal Audit with that of the External Auditor through sharing of plans and quarterly liaison meetings, where appropriate.
- 13.2 The Chief Internal Auditor also liaises with equivalents in neighbouring local authorities where services are shared or delivered jointly. Liaison is also ongoing with equivalents in Core City Local Authorities.

14. Strategic Statement:

- 14.1 The PSIAS require internal audit's risk-based plan to incorporate or link to a strategic or high-level statement of:
- How the Internal Audit service will be delivered
 - How the Internal Audit service will be developed
 - How the Internal Audit service links to organisational objectives and priorities.
- 14.2 Following the 2016 Council elections and change of administration the Council continues to develop revised strategic objectives and corporate plans for the term of the current elected mayor. The Council continues to face significant financial challenge through changes to the central funding regime.
- 14.3 Internal Audit will contribute to the achievement of the Council's objectives by:
- Providing objective assurance on the Council's internal control, governance and risk management arrangements

- Identifying and reporting significant risk exposures and control issues and making recommendations for improvement
 - Promoting a robust and proactive approach to fraud identification and investigation
 - Promoting effective internal control risk management and governance arrangements across the Council
 - Supporting the development of Council services through appropriate consultancy work and advice
 - Focussing on monitoring compliance with statutory requirements and Council systems to ensure consistency in the use of Council resources
 - Focussing in all its work on the identification of opportunities for improving value for money in the delivery of Council services
 - Working in constructive partnership with the elected Mayor, the Audit Committee and Council management.
- 14.4 Internal Audit services will be delivered through its core staff, drawing in additional expertise from within the Council and externally as needed.
- 14.5 Reliance will be placed where appropriate on other sources of assurance, both internal and external. External sources of assurance will include Government Inspectorates, the Council's External Auditor and the Internal Audit Services of neighbouring local authorities where services are shared or delivered jointly.
- 14.6 The Internal Audit service will be developed through:
- Keeping its plans under close review so it can respond flexibly to changes in the City Council's priorities and risks
 - Feedback from users of the service including management, the Audit Committee and the External Auditor
 - The QAIP and internal self-assessment of compliance with the PSIAS with periodic external validation of the self-assessment
 - Sharing of good practice and benchmarking with the Internal Audit services of the Core Cities Local Authorities
 - Having due regard to other sources of good practice such as CIPFA and the IIA
 - Training and development for staff identified through the Council's employee performance management scheme, through management supervision and by Internal Audit staff themselves
 - Responding to opportunities to work more efficiently, taking advantage of developments in 'agile working' and new technology.

- 14.7 As the Council develops and implements its strategy for 2017/18 to 2019/20 so Internal Audit will develop this strategic statement into a formal strategy covering the same period.
15. ***Review of the Internal Audit Charter, Terms of Reference and Strategic Statement:***
- 15.1 In accordance with the PSIAS, the Internal Audit Charter, Terms of Reference and Strategic Statement is reviewed annually and presented to the Audit Committee for reconsideration and approval, as appropriate.

Head of Internal Audit

Reviewed: October 2017

Approved by: *Audit Committee (TBC)*

Audit Committee

23rd November 2017



Report of: Director of Finance

Title: Bundred Report and Annual Governance Statement Tracker – November 2017

Ward: N/A

Officer Presenting Report: Denise Murray

Contact Telephone Number: 0117 92 22452

Recommendation

The Audit Committee acknowledge progress made to date against the Action Plan and consider any issues arising.

Summary

The 2016/17 Annual Governance Statement and Bundred review identified a number of issues that needed to be addressed to ensure continuous improvement in the governance framework, financial and budget management, and the process for managing the achievement of savings .

The improvements identified have been incorporated into a separate Annual Governance Statement Action Plan to be regularly monitored in 2017/18 and progress reported to the Audit Committee.



1. Purpose

- 1.1. To report on progress made to date against the Annual Governance Action Plan arising from the Bundred Review and the 2016/17 Annual Governance Statement.

2. Background

- 2.1 The members of the Audit Committee previously endorsed, in their meeting on 23rd June 2017, that the Committee should receive monitoring reports at each of its meetings advising of progress against the Annual Governance Statement Action Plan. This report covers the following:

- The progress made to date against the implementation of the agreed actions arising from the Councils response to the Bundred review is summarised below and details attached as Appendix A.
- *Bundred Review – 85 Actions proposed; the status of implementation as at September 2017 is:*
 - *Green – Completed and Evidenced - 52 (61%)*
 - *Amber - In Progress with evidence – 33 (39%)*
 - *Red – Not started /started but not evidenced, date at risk – 0 (0%)*
- The actions within the draft 2016/17 Annual Governance Statement which was presented to Audit Committee in June 2017 and the updated version now presented for formal adoption on behalf of the Council, at the meeting on 21st September 2017, as part of the 2016/17 Statement of Accounts, is summarised below and details attached as Appendix B.
- *Annual Governance Statement – 22 Actions:*
 - *Green – Completed and Evidenced - 4 (18%)*
 - *Amber - In Progress with evidence – 18 (82%)*
 - *Red – Not started / started but not evidenced, date at risk – 0 (0%)*

3. Proposal

- 3.1. The Audit Committee considers the progress made to date against the Action Plan and consider any issues arising and raising challenge where appropriate.

4. Other Options Considered – N/A

5. Risk Assessment

- 5.1. The publication of an Annual Governance Statement is a legal requirement and the processes of implementation, monitoring and reporting of improvement actions arising therefore constitute an important element of the Council's governance arrangements. The actions identified within the response to the Bundred report and the Annual Governance Statement constitutes important measures whereby the Council's overall management of organisational risk can be enhanced.

6. Public Sector Equality Duties

6.1. 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.

6.2 No Equality Impact anticipated from this report.

7. Legal and Resource Implications

Legal – N/A

Financial – N/A

Land – N/A

Personnel – N/A

8. Appendices:

- Appendix A – Bundred Review Actions
- Appendix B – Annual Governance Actions

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

9. Background Papers:

None.

Total Actions	85
Green complete and evidenced	52
Amber in progress with evidence	33
Red not started, started but not evidenced, date at risk	0

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Appendix A - Bundred Review Actions

Bundred Review Document Reference							
No	Recommendation	Activity Ref	Noted Activity	Responsible Owner (SLT member, Service Director)	Revised Date (if applicable)	R/A/G	Comments on RAG
1	1. For future significant savings programmes, especially any involving projects which embrace more than one Directorate, the Council should ensure stronger governance arrangements and clearer Member oversight (paragraph 45)	B1	A new process has been designed and implemented that issues all budget Managers with 'Directorate Cash Limits'	Denise Murray	Ongoing	G	Measures have been put in place, need to assess over time to decide if this has been effective. A sign-off process has been implemented to ensure budget holders are aware of their budget position and directorate cash limits
1	1. For future significant savings programmes, espe	B2	Each savings proposal has been allocated a named Strategic and Service Director lead as accountable officers	Denise Murray	Mar-17	G	The relevant proportion of the cross directorate saving has been allocated to the relevant divisions so that there are no longer any centrally held savings.
1	1. For future significant savings programmes, espe	B3	A new governance and delivery assurance framework provides a robust framework for tracking and monitoring delivery, and provides early sight of any issues that may arise allowing for early intervention and mitigations - this new governance will be kept under review and adapted to ensure maximum effectiveness	Nicki Beardmore	n/a	G	DWG and DE have been operating since March (meeting facilitation and support provided by PMO). Monthly Progress Reports are produced for DWG/DE Prototyping and learning as we go. DWG retrospective held (17/05) and Trello board created, associated actions being progressed DWG ToR refreshed August 2017 to ensure continued effectiveness and fitness for purpose
1	1. For future significant savings programmes, espe	B4	All savings proposals now undergo a formal sign off procedure to ensure that appropriate accountability is clearly and transparently defined and responsibilities are clearly delegated to the appropriate Strategic or Service Director for delivery and tracking	Nicki Beardmore		G	Budget Planning templates and new Business Case templates created to provide greater depth in reporting. All savings lines in Budget have a named responsible officer (Director Lead) required to report monthly on progress which directly informs the Budget Monitor Any changes to Director Lead is subject to formal change control (process can be provided). Any Director Leads leaving the authority are required to attend DWG with new savings owner prior to departure and confirm current saving status and handover arrangements

N	Recommendation	Activity Ref	Noted Activity	Responsible	Revised	R/A/G	Comments on RAG
				Owner (SLT member / Service Director)	Date (if applicable)		
1	1. For future significant savings programmes,	B5	Alignment and combination of the monthly mechanisms for managers and Service/Strategic directors to submit a holistic view of savings delivery from a financial and action focussed perspective	Denise Murray	Mar-17	G	Delivery Executive in place and established (please see below)
	1. For future significant savings programmes,	B6	Member oversight as an element to the governance process that now includes a Delivery Executive	Nicki Beardmore		G	Delivery Executive in place from March 17 and meeting weekly initially. DE Chaired by Deputy Mayor – Finance, Governance and Performance. Relevant Portfolio holders should also attend these sessions, providing joint ownership and accountability for savings by both members and officers.
	1. For future significant savings programmes,	B7	An OSMB led review of the Council's arrangements for Scrutiny	Shahzia Daya	May-18	G	This is a member led process and the initial planned review has been completed. Members are now trialling the new methods of scrutiny throughout 17/18 with a view to finalise constitutional changes for the 2018 AGM.
	1. For future significant savings programmes,	B8	Updated position in respect of the delivery of savings will be routinely reported as part of the budget monitoring report	Denise Murray	Jun-17	G	The two monitoring process are integral; progress on delivery of savings is now reported periodically through monthly savings report and also integrated within the finance monitoring reports to SLT / Scrutiny
	1. For future significant savings programmes,	B9	A one-off investment fund has been allocated to support savings related change activity across the council	Denise Murray	Feb-17	G	The Capacity Investment fund is created from a one off (reserve) intended to go across financial years to support project and transformation delivery. Early indication is that the full £5m may be required in 17/18 to fund PMO resource additional project / transformation work and mitigate any residual in-year budget pressures. Full detailed analysis of proposed usage will be incorporated within the budget monitoring report.

N	Recommendation	Activity Ref	Noted Activity	Responsible Owner (SLT member / Service Director)	Revised Date (if applicable)	R/A/G	Comments on RAG
1	1. For future significant savings programmes,	B10	Further consultation is expected to be required in respect of some areas of savings proposals and will commence when the General Elections have concluded	Shahzia Daya		G	Further consultation activity was rescheduled to commence post the General Election; these are being progressed by Members, Service Leads and supported by consultation Teams; any impact on delivery of 17/18 savings has been factored into the profile and budget monitoring reports.
1	1. For future significant savings programmes,	B11	Where there is a risk to the delivery of savings, mitigation plans will be developed immediately in conjunction with the relevant Portfolio Holder	Denise Murray	Oct'17 - in terms of next steps identified. Other 'evidence based' items already in place	G	In 2017/18 we have reinforced the requirement to operate within approved cash limits, seek directorate mitigations for emergent pressures and in consultation with the relevant Cabinet member formally request a supplementary estimate and / or hold expenditure in abeyance to ensure delivery of a balanced budget. A three tier escalating budget scrutiny / improvement protocol has been developed aimed at addressing service areas where financial performance is a concern and at a directorate level, the net position could destabilise the council's financial position.
1	1. For future significant savings programmes,	B12	Directorates will be challenged to explore alternative options for meeting the cost pressures faced within their existing resources or seek supplementary estimate to increase the directorate spending limit	Denise Murray	Ongoing	G	Please see comments above
1	1. For future significant savings programmes,	B13	The first budget monitoring report will be reported to Cabinet in June 2017	Denise Murray	Ongoing	G	Integrated budget monitoring report being presented to cabinet on a monthly basis which incorporates delivery on savings initiative in line with forecasted out turns within budgets and agreed reporting cycle. The report also incorporates key financial risks and opportunities, an analysis of the agreed savings programme and what is deemed to be at risk, and review of aged debt with improvement measures and progress.

N	Recommendation	Activity Ref	Noted Activity	Responsible Owner (SLT membr Service Director)	Revised Date (if applica...	RIA/G	Comments on RAG
1	1. For future significant savings programmes,	B14	Between March 2017 and June 2017, when there is no Cabinet a draft budget monitoring report will be made available to Members as per normal procedure	Denise Murray		G	Complete - The first cycle budget monitoring report commenced at period two as per the financial reporting cycle and have continued there on, there has been a Cabinet for each one, where there is no Cabinet meeting scheduled, it is our intent they will be submitted virtually to ensure there is no gap in the information submitted to Members .
2	2. Wherever possible, the Council should ensure that responsibility for the delivery of specific savings initiatives is allocated to Directorates so that ownership of savings programmes and accountability for them is clear (paragraph 66).	B15	Cross cutting projects allocated to specific Strategic and Service directors, who will design and ensure delivery of the saving	Denise Murray		G	Complete - see the comments in B2
3	3. The Council should adopt a more disciplined, centrally driven approach to business cases supporting investment decisions or savings projects. There should be a standard template of what constitutes an acceptable business case and a standard procedure through which the template must be completed and approved (paragraph 65).	B16	A new business case template has been implemented which covers all development gateway stages and adopts the principles of the HM Treasury Green Book best practice methodology	Nicki Beardmore		G	New Business Case template in place from March alignment with HM Treasury Green Book methodology - further iterations and improvements have been made through a continuous improvement approach. The business case template and guidance includes information which facilitates the development of a robust and transparent document and includes some pre-defined questions to prompt the author / quality assurer.
3	3. The Council should adopt a more discipline	B17	Ensure that the protocols regarding the independent assurance of reports is refreshed and strengthened to make sure that all of the relevant professionals e.g. legal, HR, finance, ICT, Property services are given ample time to comment on reports	Nicki Beardmore	May-17	G	In relation to savings business cases going to D/W/G and SLT, PMO BC Assurance introduced May '17 - Corporate Services Professional Views sought as part of monthly reporting, exception reporting and business case production. Reports follow an alternative process in seeking sign-off from service professional and whilst the process is clear this still requires improvement in the forward planning of items to ensure sufficient time is available for due diligence.
3	3. The Council should adopt a more discipline	B18	Review of the decision pathway, associated protocols and process map to ensure consistent implementation	Shahzia Daya	Oct-17	A	New decision Pathway consulted on and implemented, feedback received as identified the need for simplification, with internal group sign-off process and a further review is now underway - please see AGS 7 for further clarity re the issue / action.

N	Recommendation	Activity Ref	Noted Activity	Responsible	Revised	R/A/G	Comments on RAG
				Owner (SLT mem Service Director)	Date (if applica....)		
3	3. The Council should adopt a more discipline	B19	Business Case training for managers when required along with support from a Change Business Partner	Nicki Beardmore	Jan'18	G	This action is for BC training to be provided as required. 'On the job' training through PM's working alongside Service Leads in producing this – and to some degree the learning imparted through the PMO Assurance Process, there is now specific training that Change Services have been part of. Further assessment of need to be undertaken and incorporation into the L&D plan if this approach is not sufficient.
3	3. The Council should adopt a more discipline	B20	All officers have access to the new business case template through the source which provides a step by step guide to developing a robust business case at all stages in the project lifecycle	Annabel Scholes		G	Template in place as of Mar'17 please see B16 above
3	3. The Council should adopt a more discipline	B21	The Change Business Partners will work alongside service leads and signpost them to the guidance available on The Source as required	Annabel Scholes		G	»2 CBP's in place pre March '17 - additional capacity added Jun'17. Further refinement of role / offer in place as of Jun'17 . Corporate Services Professional Views sought as part of monthly reporting, exception reporting and business case production. Detail of this process and supporting ToR for professional views group can be provided.
3	3. The Council should adopt a more discipline	B22	The officer responsible for delivering the agreed business case, will be responsible for tracking the assumptions underpinning the business case and, where there is a material change are expected to report this to SLT and their portfolio holder(s) in a timely manner, particularly with respect to benefits realisation	SLT		G	Reporting in place as of Mar'17 - alignment to finance reporting cycle as of Jun'17. Change Control process and version control reinforced through DE/DwG Support available through Change Services

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4	4. The Council should take steps to build on recent improvements in the quality of reporting and document management. Where necessary guidance should be issued, or training provided, to report authors emphasising the importance of clarity, transparency, analysis and advice (paragraph	B23	All reports must include all of the feasible options available to be implemented and be supported by a robust evidence base or business case	SLT		G	As per the decision pathway a range of template are in place which captures the appropriate information for the audience and options being considered as the proposition progresses along the pathway. Where the depth and stage requires a business case, a template and support is available.
4	4. The Council should take steps to build on r	B24	SLT have agreed and the Chief Executive has recently reinforced the need for reports rather than presentations to be used as the basis of discussions and decisions at officer meetings	SLT		G	Complete Mar'17 with presentation being used as supplementary item to the main report upon which the decisions will be made and consistency is ensured in the presentation and the main data set.
4	4. The Council should take steps to build on r	B25	In future each report should have sufficient detail to 'stand-alone', key messages and recommendations must be clear and succinct, supported by appropriate evidence and relevant professional advice; and where necessary, reports must enable councillors to refer easily to relevant policies and previous decisions and	SLT		G	Complete Mar'17. This is further reinforced through the PMO Assurance process as it is solely based on what can be evidenced in the BC document
4	4. The Council should take steps to build on r	B26	Each report / business case requires sign off	SLT		G	Audit trail in place through D/W/G and decision pathway
4	4. The Council should take steps to build on r	B27	Officers are currently developing a new development programme for the Bristol Manager framework that will assist managers with the key competency requirements	John Walsh	ongoing	G	The Bristol Manager programme is designed as a set of facilitated learning sessions on a number of core business processes, to include support to prepare business cases and reports. Research on good practice has been undertaken during August, including conversations with Change Services colleagues. This analysis concluded that there are two areas of learning required - firstly defining the problem that needs to be solved and thinking about options and solutions that are whole system changes, rather than just solving the immediate issue. Research is underway on the best method to deliver this support - either online learning or face to face sessions. The second part is preparing the business case and making a well-evidenced case. This will be addressed via updated online guidance materials from Change Service
4	4. The Council should take steps to build on r	B28	In addition to formal arrangements for reporting and challenging budget performance, such as Cabinet and Scrutiny, the Council will also develop more informal, but nevertheless robust arrangements for Member briefings on key issues or ward matters	Shahzia Daya, and SLT		G	Regular briefings are taking place with portfolio holders, Mayor and the Executive.
4	4. The Council should take steps to build on r	B29	Strategic and Service Directors ensure that sufficient time is provided to enable reports to be fully considered and signed off by all the relevant professionals (Legal, Finance, HR etc.) and in accordance with the protocol prior to submission for inclusion on agendas	SLT	Ongoing	A	There is a week between submission of a document and the date of review; however forward planning needs to improve to ensure that the appropriate level of due diligence can be undertaken; this can be challenging with urgent items and can on occasion be more complex than anticipated and require more than the initial assessment of time. There is a high demand for professional input required due to the quantity of reports which can cause delays in

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4	4. The Council should take steps to build on...	B30	SLT and Service Directors will ensure that the minute taking of meetings and working groups is improved ensuring that a summary of the report and discussion is included along with clear agreements/recommendations and timescales	Shahzia Daya		G	Steps have been put in place to improve minutes, with particular focus on where endorsement / approval is being sought. The onus is on all in attendance to review and agree the minutes / actions as an integral part of the agenda.
4	4. The Council should take steps to build on...	B31	New protocols will be issued to emphasise the need to comply with internal storage of documents to facilitate audit trails and transparency	Shahzia Daya		A	The document retention schedule to be reviewed and refreshed as appropriate. This was covered in part by the information security training that has taken place across the organisation. Modern Go will be revisited now that its fully implemented to ensure the electronic system is effective and compliant.
4	4. The Council should take steps to build on...	B32	As part of the development of the revised working arrangements for the Council, the necessity for all of the current officer working groups will be reviewed, terms of reference will be refreshed / or developed	SLT		A	New decision Pathway and Internal Groups; subject to review - please see B18 above for response
4	4. The Council should take steps to build on...	B33	Review of levels of delegation of working groups and Boards, linking back to the constitution, decision pathway and budget and policy framework	Shahzia Daya		G	Briefing sessions (management brief and DLT's) have been provided on the Constitution and the Scheme of Delegation for all managers. The core documents have been reviewed and refreshed. Updated scheme of delegation and Mayor's scheme of delegation now uploaded onto the council's website. Scheme will need overhauling post senior Officer executive decision process was covered in the briefing, template produced to provide consistency, CPG expectation is that the template is provided for request in excess of £100k and an officer draft rolling 12 month forward view of possible Key decisions and Officer executive decisions has been developed for planning purposes.
4	4. The Council should take steps to build on...	B34	The schemes of internal officer delegations will also be reviewed at least annually	Shahzia Daya		G	
4	4. The Council should take steps to build on...	B35	A learning and development programme will be created that will help support colleagues across the council to have the right skills and tools to enable them to do their job to a high standard	John Walsh	Nov-17	A	Extension of B27 above with further areas and training tools being explored, designed and rolled.
5,6	5. Members should be less tolerant of poor quality reports than they appear to have been in the past (paragraph 120). 6. Where they do not already exist, arrangements should be made for report authors to receive feedback from Member or senior officer discussion of their reports as a matter of routine (paragraph 113).	B36	Members will be supported through the Member Development programme to recognise & challenge when a report is of poor quality	Shahzia Daya	or some progr	A	The officers supported by the LGA have drafted a programme for Members to develop a programme of essential and desirable skills. this has been shared in draft with party group leaders whilst officers are in the process of re-establishing a Member working group to consider the draft and reshape as appropriate. The member development programme will continue to be supported by the LGA and once endorsed will be rolled out in accordance with an agreed
5,6	5. Members should be less tolerant of poor q	B37	All Strategic and Service Directors will provide the appropriate support and guidance to ensure that the quality of reports improve	SLT		A	Quality of report writing continues to be improved with a gateway of assurance being provided with SLT. Training to be developed as part of the new management training programme.

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7	7. Relevant officers should be reminded of th	B38	Strategic and Service Directors will make arrangements to brief Members on major issues e.g. MTFP, corporate strategy, savings proposals and policy changes concerning the Council and, more specifically, about issues and events affecting the Ward areas as appropriate	Shahzia Daya		G	See B40 below
7	7. Relevant officers should be reminded of th	B39	Portfolio holders will also facilitate briefings with backbenchers and opposition members to ensure Councillors are fully briefed on key policy decisions as they evolve	Shahzia Daya		G	Where the opportunity exist for an observer or additional member(s) to join the meeting this has been taken; for example Shareholder Group meeting, Audit Committee and Party Group Leaders.
7	7. Relevant officers should be reminded of th	B40	The development of a Protocol On Councillor/Officer Engagement	Shahzia Daya		G	The Protocol developed in July will be specifically updated as part of the Constitution review and will be presented to Full Council December 2017. After Full Council a training programme for officers and members will be rolled out across Winter 2017/18.
7	7. Relevant officers should be reminded of th	B41	Strategic Directors will provide the appropriate support and guidance to ensure these protocols are embedded throughout their Directorates	Shahzia Daya, and SLT	Ongoing	A	Following adoption by full Council of the revised codes and protocols training will be provided through management brief for cascading and placed on the source.
7	7. Relevant officers should be reminded of th	B42	Officers will continue to reflect upon the feedback from OSMB and other Members to further enhance the approach adopted to engaging with all Members on the 2017/18 budget issues in the development of key strategic documents	Denise Murray	Ongoing	G	In developing the MTFP, officers worked with OSMB Scoping Group to develop the principles and engaged with all political groups following endorsement from exec board of the approach to be adopted. We are now at the second stage of the process and developing propositions that align to the principles and will continue to engage widely with the OSMB T&F groups as part of the next stage in this process.
7	7. Relevant officers should be reminded of th	B43	In developing the Medium Term Financial Plan we will provide comprehensive information on the challenges and options we face and stage a series of early engagement meetings with political groups and scrutiny to listen to the views and seek input into the process	Denise Murray		G	Complete - as per the above

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8	8. The incoming chief executive should be invited to consider and report on the steps needed to improve the management culture within the Council, recognising that any necessary changes will take three to five years to embed. There should be an emphasis on greater openness, professionalism, delegation, mutual respect and better internal communication, but with fewer large and lengthy meetings (paragraph 129).	B44	Development of a programme to address the weaknesses identified in this report and issues raised in the staff survey	John Walsh	Oct-17	G	A plan of leadership development and improving organisational culture is in the late planning stages. This incorporates the feedback of the staff survey and uses the funding allocated by the Mayor for the 17/18 and 18/19 budget. Leadership Development programme sits within the emerging workforce plan. A series of learning and development programmes are being designed, this includes developing organisational values; leadership framework; management development support at all levels; creative problem solving; tools and techniques for having better conversations; core business skills inc report writing. In addition career coaching is being offered to those managers who are at risk in the senior management restructure.
		B45	Development of a new target operating model that will provide the necessary clarity to ensure the organisation is clear about its priorities, values and behaviours	Nicki Beardmore		A	Organisational Structure to be shared with the organisation by December. An approach to linking the strategic direction of the organisation with job design and performance management needs to be designed and this will need to be consistent with Corporate Plan priorities and resulting service performance
		B46	Clarify and focus on strategic priorities with measurable success factors	Tim Borret	Apr-18	A	In flight but relies on initial completion of Corporate Strategy review which is underway.
		B47	Develop and pilot a programme to ensure a single culture in BCC	Steph Griffin	Ongoing	G	Draft Organisational values have been shared with SLT, Mayor, Cllr Cheney, Craig and Godwin and Exec Board and a programme to commence roll-out is being prepared. These will underpin the wider organisational culture work programme (B34) and the emerging corporate narrative (based on the
		B48	Ensuring that performance objectives for all managers flow from our strategic objectives but equally are a demonstration of commitment to values and behaviours	John Walsh		A	A dedicated workstream under the 'workforce plan is looking at our performance management framework. It aims to review the council's approach to performance management to drive a high performance culture where people feel valued. The key activities include survey BCC employees and holding focus groups, research private/public sector approach to PM, Systems and Culture, explore statutory obligation for PM. The work will be linked with the emerging organisational values and leadership framework which sets out our expectations of our colleagues and will introduce a
		B49	The Chief Executive (supported by Strategic Directors) will monitor and challenge the number of Officers at meetings	SLT		A	There has been challenge on the number of officers at exec meetings and steps has been taken to reduce where appropriate.

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		B50	The Chief Executive to visit a range of workplaces to listen and talk with colleagues, providing an opportunity for them to share work priorities and challenges	SLT		G	Drop-in Sessions have been taking place with Mayor and CX throughout the year. These have been across all council sites, particularly targeting offline staff. A programme of regular sessions and engagement opportunities are being prepared as part of the roll-out of the organisational culture workstream (as B35)
		B51	Creation of space for working collaboratively and transparently on cross-cutting issues	Bill Edrich		G	This is being embedded in change work via the Hot House process. The culture and L&D programme includes the role out of hot house and agile principles for problem solving for teams to use in their everyday business. The comms and engagement approach will involve plenty of opportunities for co-design and collaboration on issues. E.g.: Management Briefing collaboration on cross cutting issues, focus groups for specific issues, Mayor and CX discussion sessions with colleagues on specific cross-cutting
		B52	Develop a single shared view amongst colleagues of our strategic priorities and our progress against them	Tim Borret		A	See B45 above for response
		B53	A culture that ensures it is "safe for truth to be spoken to power", encourages two way feedback and values honesty integrity and transparency	John Walsh	01-Sep-17	G	A group of volunteer managers running from Jun – Sep to test tools and techniques. Outputs shared from sprint group at management brief in October. Sprint has informed the larger organisational culture work stream.
		B54	A learning and development programme will be created for The Bristol Manager	John Walsh	Oct-17	G	As B27 and B34 above
		B55	Actively seek opportunities to recognise and celebrate success	T/John Walsh/Tim Borrett		A	This is being picked up as part of the workforce plan. In the meantime good news and shared learning is shared with colleagues on Source. A proposal on a more formal recognition of success can be expected as part of the pay and reward work stream of the
		B56	A fund to be allocated to support the work on culture development and invest in colleagues learning and development	Steph Griffin		G	Budget of £750k identified in the 2017/18 budget - £450k forecast outturn (£300k offered up as in-year savings). Programme is outlined in B27 and B34
		B57	Participation in the LGA Corporate Peer Challenge	Nicki Beardmore	TBC	A	The Corporate Peer challenge was postponed due to the Grenfell Tower tragedy but a new date is being discussed with the LGA. This has impacted on the delivery timescales or all subsequent Peer Challenges. Discussions are taking place with the LGA re the revised dates and details will be notified in
		B58	Participation in the Housing Delivery and HRA Peer Challenge	Alison Comley	TBC	A	See comments above

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		B59	Participation in the Children's Social Care Peer Challenge	John Readman	TBC	A	See comments above
		B60	Participation in the Adult Social Care Peer Challenge	John Readman	TBC	A	See comments above
9	9. The Council should take further steps to improve the quality of its Finance function, modernise its role and enhance its status. Response: Finance functions are being restructured to implement a more robust business partnering delivery model. This will enable finance to be at the heart of the organisation and influence business decision. The finance function will improve the efficiency of transactional processes	B61	Finance functions are being restructured to implement a more robust business partnering delivery model	Denise Murray		G	Significant improvement have been made to the quality of high level financial support provided, reflected in feedback from Strategic, Service Directors and members. A consultation on the restructure of finance is imminent and that will ensure appropriate capacity and skillsets at the right level.
	Relevant outstanding recommendations of the review commissioned in December 2015 should be actioned as a matter of urgency (paragraph 130).	B62	The finance function will improve the efficiency of transactional processes which will bring insight, intelligence and support complex propositions	Denise Murray		G	Included within the Finance Transformation
		B63	Improve how reports produced by the internal / external auditor, other regulators and inspectors are dealt with and shared and continue to strengthen our approach for responding to recommendations	Denise Murray		G	A range of reports have been produced - example: Annual governance statement, Quarterly Statements, Final Audit Reports - which have produced a more user friendly report and greater depth of information. Work continues to further improve the actual internal audit reports
		B64	Monitoring and proactively managing non-compliance	Denise Murray	Ongoing	A	We have reports to show where Budget managers are and are not completing spend forecasts and initial (rather than retrospective) purchase order compliance. Substantial progress has been made in ensuring compliance with budgetary control and other key financial processes, but there is still much to be done in terms of self serve. We have reports to show where Budget managers are and are not completing spend forecasts and purchase order compliance, but a formal process still needs to be implemented via DLTs and SLT to ensure measurable improvements in compliance rates.
		B65	Transformation of the Finance function. It will be necessary to take an end-to-end approach and combine top down and bottom up initiatives	Denise Murray		A	A Procurement Card review is ongoing with a view to minimising the volume of cards and spend and Finance Transformation Programme is inflight and progressing

Summary Table - Document Reference		Activity Ref	Noted Activity	Responsible Owner (SLT member / Service Director)	Revised Date (if applicable)	R/A/G	Comments on RAG
		B66	A more robust approach to providing assurance through the Annual Governance Statement has been developed, ensuring that all budget managers and responsible officers are an integral part of the overall governance assessment. All responsible officers now complete and sign off an AGS statement that feeds into the wider overall assurance across the authority	Denise Murray		G	<p>A new approach is now in place which will be updated and monitored more regularly - ideally on a quarterly basis. Co-ordinated by Internal Audit</p> <p>For the 2016/2017 statement, the final signed submission has been completed. A process for evidence to be captured on a more regular basis e.g. ideally quarterly is now in place to further embed the principles of good governance.</p> <p>Adoption by Audit Committee of the action plan provided the indication for the effectiveness of the 16/17 approach and indication that this task is complete.</p>
Page 181		B67	Continued implementation of the Improvement Plan which will be updated to take into account the recommendations of the Bundred Report	Denise Murray	Ongoing	A	Improvement is continuous and should be monitored on an ongoing basis. A number of the key documents that form the financial framework have or are in the process of being refreshed for submission for approval December 2017 in line with the constitution. Underpinning protocols have been implemented and draft terms of reference being prepared to further improve areas such as capital
		B68	DUPLICATION of above B66 - A more robust approach to providing assurance through the Annual Governance Statement	Denise Murray		G	Item duplicated with B66 above
		B69	The Resources Directorate are piloting a new delivery model in accordance with the approved policy framework to test internal shared service arrangements in the first instance, which also responds to the advice from the external review of	Annabel Scholes		A	Finance Transformation Programme is inflight and progressing
		B70	Work continues on the Finance systems to progress the identified requirement to conclude the IT system developments and avoid the need for significant use of spreadsheets etc. which jeopardises the "single version of the truth"	Denise Murray		A	In progress - systems developments have been focused on the revised reporting formats for the in-year monitoring reports, dashboards and aged debt. This was the first stage and work will now continue on the wider system transformation work required and agree revised dates and milestones.
		B71	Peer review of the Internal Audit function has been commissioned which will also embed Key Audit deliverables in Service BAU	Denise Murray		A	The date of the review was deliberately back-ended to ensure it didn't create capacity issues in managing the AGS and volume of internal audit review that was in the pipeline. The review has now been undertaken and report will follow in due course.

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10	10. The previous recommendation that the Council should "Develop a Competency Framework and agree the way forward re Assessment and Development centres" in relation to its Finance staff is overdue and should be given priority (paragraph 134).	B72	Appointment of a permanent structure based on CIPFA principles	Denise Murray		A	There is a draft structure which includes required financial qualifications for senior officer posts, details are being finalised with a plan to commence consultation in the coming weeks.
		B73	Utilise an assessment centre based on those which have been developed and used in other authorities	Denise Murray	TBC	A	Comments as above (B72), as part of this process, skills assessments will be undertaken
		B74	The finance function needs to create the conditions that enable it to be agile, adaptable, and accountable and to learn from success as well as failure so that responding quickly to change is second nature, constantly striving for the best possible services and outcomes	Denise Murray		A	A formal structure needs to be implemented and embedded, however, with the change in Business Partners, and a number of vacancies, it has provided an opportunity to operate an agile structure with points of contact for service areas and projects, operating in a matrix style as opposed to fixed business partners working solely within a directorate
		B75	A transitional structure will be implemented	Denise Murray		A	Duplicated with restructure below - suggest we remove
11	11. This should be actioned alongside a review of the role and requirements of Business Partners as part of the current review of the Finance Directorate structure (paragraph 134).	B76	Business Partners and the new internal shared service will lead the Business Support function, ensuring the smooth, seamless coordination and execution of the finance service provider function, including project delivery	Denise Murray		A	The function is moving towards this model and project work with a more agile, skills based matrix approach adopted. Fully embedding the line management principles identified will however require the implementation of the new permanent structure.
		B77	Interim and final Finance structures will incorporate a mentoring and larger trainee scheme to enable BCC to "grow its own"	Denise Murray	Ongoing	A	This will be one aspect of B80 L&D on which activity has commenced.
		B78	Appointment of Business Partner roles on a skills based assessment	Denise Murray	TBC	A	Restructure of finance due to go out to consultation in the coming weeks and skills based assessments will form part of the recruitment process for senior A restructure is planned for the function with tiers which are conducive to career progression.
		B79	A competency framework will be implemented which outline the set of competencies needed to perform each of the roles effectively and career progression pathway	Denise Murray	Nov-17	A	Support will be commissioned from internal L&D and CIPFA to develop a competency framework that aligns to the revised role profiles.

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				Owner (SLT mem Service Director)	Date (if applica...		
		B80	The organisation is in the process of building the learning & development programme	Denise Murray	Oct-17	A	<p>Work has commenced with the initial focus on workforce resourcing: ensuring that we have the right level of resource with the right skills, and a planned pipeline for the future.</p> <p>Additional interim resource has been recruited to provide capacity and complement / enhance existing skills and work has commenced on introduction of a revised L&D programme which will provide supported Professional training and provide clarity on the expectation from our employees in return. A pipeline of trainee's / apprentices is also being considered.</p>
12	12. The more timely reporting of budget monitoring information that has now been introduced should continue into the future. If the Council opts to return to quarterly budget monitoring and the first quarter report cannot be considered in July, there should be routine reporting in June or July of the position as at the end of May (paragraph 118).	B81	Members and scrutiny receive regular, detailed budget reports that provide information on progress, variance against plans and corrective action already underway or planned	Denise Murray		G	SLT, Members and Scrutiny received Period 2 and other subsequent periodic reports on schedule, with the first report for the period presented for the 27 July Cabinet
		B82	Clear links between the Council's capital programme and its service and revenue budget planning processes, both of which take account of the MTFP	Denise Murray		G	2017/18 budget and the Medium Term Financial Plan have set out clearly the impact that capital programme and its financing has on the revenue position, revenue and capital budgeting are set simultaneously and reported on within the monitoring
		B83	Finalise the guidance for the new monthly monitoring process and embed these processes for 2017/2018	Denise Murray		G	Guidance has been drafted and will be issued to budget managers from start of P3 - June
		B84	Publish the 2017/2018 budget monitoring timetable that reflects the 6 weekly cabinet cycle	Denise Murray		G	Outline guidance incorporated into monthly into budget managers forecasting returns. Additional training and support has been provided during the early part of the financial year
		B85	Capital reporting to be automated and reflect multiple year programme direct from the Finance System	Denise Murray		G	<p>Timetable for internal budget monitoring was published in April, timetable for reporting to cabinet was discussed with the Dept. Mayor however due to 6 weekly cabinet there were issues with timely reports to cabinet and therefore not finalised. Moving back to the monthly cabinet cycle means this can now be addressed, finalised and published internally and externally.</p> <p>All monitoring reports are published in the Council's forward plan of Cabinet reports.</p> <p>Complete - in P2 reporting (May).</p>

Total Actions	22
Green - complete and evidenced	4
Amber - in progress with evidence	18
Red - not started, started but not evidenced, date at risk	0

Appendix B - Annual Governance Actions

Re f	Recommendation	Activit y Ref	Noted Activity	Responsible Owner (SLT member, Service)	Revis ed Da	R/A/G	Comments on RAG
1	The responses to the Bundred report agreed at Cabinet will be regularly monitored in 2017/18 in line with the AGS action plan.	AGS 1.1	See Actions 1-12 above	SLT			See supplementary schedule
2	Internal Audit introduce more rigorous tracking of Internal Audit recommendations, incorporating more regular provision of Monitoring Information to Strategic and Service Directors.	AGS 2.1	More rigorous monitoring of the implementation of Internal Audit recommendations is scheduled for 2017/18 accompanied by the enhancing of communication and escalation to Strategic Directors and Service Directors, who will then be held to account for their performance by the Chief Executive and Members.	Denise Murray		G	The provision of monitoring information to Strategic and Service Directors is now in place. This will form the basis of reporting to SLT and the Audit Committee. Audit Champions have also been established and having a point of contact has proved useful in this process. Escalation processes are in place but has not been required to date.
3	Develop a wider strategic approach to delivering the Mayor's vision and strategic priorities.	AGS 3.1	Developing a wider strategic approach to delivering the Mayor's vision and strategic priorities including : 20-50yr City wide plan, the Economic Growth Strategy, Refreshed Corporate Strategy, Target Operating Model (TOM), Medium Term Financial Plan (MTFP), Business plans, Performance management framework, Workforce plan, the employee offer, experience and development, Transformation plans, Communication and employee engagement plan and Values and behaviours framework	SLT		A	The Economic Strategy is one of the key documents in the strategic framework that provides the golden thread from the Mayor's vision to baseline individual delivery. Resources have been commissioned to support its development and early scoping work has ensued. This is a significant piece of work and remains on track for delivery within this financial year.
3	Develop a wider strategic approach to delivering the Mayor's vision and strategic priorities.	AGS 3.2	Target Operating Model to be finalised and approved.	Nicki Beardmore	Dec-17	A	Development well underway and early thinking shared with the Mayor. The TOM will need to take account of any refresh made to the Corporate Plan and a more fundamental review is required.
3	Develop a wider strategic approach to delivering the Mayor's vision and strategic priorities.	AGS 3.3	Medium Term Financial Plan to be finalised and approved.	Denise Murray		G	The MTFP has been completed - submitted to Cabinet 27th July and approved. Work is now underway to develop the annual budgets that flow from the MTFP
4	Performance objectives to be linked to the Council's overarching principles and priorities outlined in the TOM.	AGS 4.1	Our employees are supported by a comprehensive individual performance management process, with objectives that link to the Council's overarching principles and priorities outlined in the TOM. (see 3 above)	Nicki Beardmore	Dec-17	A	TOM to be shared with the organisation by December. An approach to linking the strategic direction of the organisation with job design and performance management needs to be designed and this will need to be consistent with Corporate Plan priorities and resulting service performance measures.

Re #	Recommendation	Activit y Re#	Noted Activity	Responsible Owner (SLT member, Service	Revis ed Da	R/A/G	Comments on RAG
4	Performance objectives to be linked to the Council's overarching principles and priorities outlined in the TOM.	AGS 4.2	Where the management of employee performance management is not as per the Council's target completion rates, remedial action plans be implemented.	Nicki Beardmore		A	Work is in progress to review the performance management process.
5	Capital governance to be reviewed and project management / profiling and monitoring strengthened to ensure the Council achieves its investment aspiration and does not unnecessarily lock revenue	AGS 5.1	Capital governance to be reviewed and project management / profiling and monitoring strengthened to ensure the Council achieves its investment aspiration and does not unnecessarily lock revenue	Denise Murray		A	Terms of reference are being prepared for a new approach which merges the Property and Capital Boards into a single Investment Working Group with a governance approach which will reflect that adopted for revenue.
6	Improve the timing and advanced planning for procurement and subsequent post award Contract Management	AGS 6.1	A Commissioning and Procurement Group has been established to consider all procurement requests including requests for waivers. The Council must instigate robust Council-wide contract monitoring governance and guidelines in order to ensure best practice for all procurement activities, value for money is achieved and poor contract management arrangements are quickly identified. Internal Audit to continue to undertake assurance reviews of the effectiveness of Procurement and Contract Management arrangements which support the Council in achieving value for money and delivering on corporate objectives	Denise Murray		A	The Commissioning and Procurement Group (CPG) was established and operates a gateway approach in considering all procurement requests including requests for waivers, officers are clear on the approach and gateways. A discussion document was prepared for SLT to discuss future approach to procurement and CPG to which further consideration is required. A Category Management strategic approach is being adopted within the procurement function which aims to organise procurement resources to focus on specific areas of spends. This enables category managers to focus their time and conduct in depth market analysis to fully leverage their procurement decisions on behalf of the whole organisation. Category manager recruitment is underway.
6	Improve the timing and advanced planning for procurement and subsequent post award Contract Management	AGS 6.2	Contract Monitoring governance and guidelines to be reviewed and disseminated throughout the Council.	Denise Murray		A	Please see the response above
6	Improve the timing and advanced planning for procurement and subsequent post award Contract Management	AGS 6.3	Internal Audit to complete assurance reviews of the effectiveness of procurement and contract management arrangements.	Denise Murray		A	Several investigations/ special request audits have been undertaken or are in progress in relation to procurement and the planned work within the Audit Plan on contract management has now commenced.
7	The number of decision documents and processes need to be simplified bringing together the Mayor and Cabinet's decision making and internal working groups	AGS 7.1	The review of both the Decision Pathways and internal working groups to be completed with specific reference to the complexity of existing decision making.	Shahzia Daya		A	Reviews of both the Decision Pathway and the current internal working groups are being undertaken with meetings in the pipeline. An officer draft rolling 12 month forward view of possible Key decisions and Officer executive decisions has been developed for planning purposes.

Re f	Recommendation	Activit g Ref	Noted Activity	Responsible Owner (SLT member, Service)	Revis ed Da	R/A/G	Comments on RAG
7	The number of decision documents and processes need to be simplified bringing together the Mayor and Cabinet's decision making and internal working groups	AGS 7.2	Briefing sessions provided on the Constitution and the Scheme of Delegation for all managers.	Nicki Beardmore		G	Briefing sessions have been provided for all managers on the Constitution, the Scheme of Delegation, the financial framework, Key decisions and Officer executive decisions.
7	The number of decision documents and processes need to be simplified bringing together the Mayor and Cabinet's decision making and internal working groups	AGS 7.3	The Constitution, Scheme of Delegation and Financial Regulations be submitted to full Council for full approval.	Shahzia Daya	Nov-17	A	The Constitution, Scheme of Delegation and Financial Regulations have been reviewed with a number of changes proposed, not all of which were supported. In light of this the documents are being further refined for endorsement by the Mayor and Cabinet and submission to full Council for approval December 2017.
8	Partnership Agreements be reviewed and to provide guidelines on best practice, value for money and minimising the risk to which the Council is exposed.	AGS 8.1	Partnership agreements to be reviewed to improve governance and provide guidelines in order to ensure best practice, value for money and minimise the risk to which the Council is exposed. The Work Plan of BDO (External Audit) includes review of both the Council's partnership arrangements and its interest in companies. The findings will be reported to the Audit Committee.	Denise Murray		A	Partnership / Contract life cycle management requires efficient management from contract creation, execution, governance and analysis for maximising operational and financial performance and minimising risk arrangements for service delivery. We need to ensure that the arrangements continue to be satisfactory to all parties to the agreement, and the expected business benefits and value for money are being realised. Work is underway within the Council to improve process (see point 8 below) and major partnerships agreements e.g. PFI under review. A fundamental requirement is that the Council fully understands the obligations of all parties under the contract; following which an assessment can be made as to whether value for money is being achieved and a professional and objective discussion over changes and issues arising can be had. This will remain an ongoing work stream
8	Partnership Agreements be reviewed and to provide guidelines on best practice, value for money and minimising the risk to which the Council is exposed.	AGS 8.2	External Audit reporting of both the Council's partnership arrangements and its interest in companies be reported to the Audit Committee	Denise Murray		A	A review of the governance in operation for Companies is underway across the group, looking at best practice from other authorities, including the role of Council Officers, Members, the skills required for Board members and shareholder assurance; it will report back in September with recommendations considered on how best to achieve the improved outcomes we seek.
9	An information security risk assessment has been completed to identify risks, lessons learnt and Action Plan developed. This will inform the Internal Audit plan for 2017/18	AGS 9.1	An information security risk assessment has been completed to identify risks, lessons learnt and Action Plan developed. This will inform the Internal Audit plan for 2017/18	Alison Comley		A	The PSN certificate has now been awarded and having resolved the outstanding issues, we are accredited as an authority The action plan is still in development in terms of pulling together all of the actions into one place. The final document indicating what is still outstanding is due next week.

Re c o m m e n d a t i o n	Re c o m m e n d a t i o n	Activit y Re f	Noted Activity	Responsible Owner (SLT member, Service	Revis ed Da	R/A/G	Comments on RAG
10	Risk Management processes need further embedding to provide forward looking views of risk which anticipate risk rather than retrospective reporting of how already known risks are managed	AGS 10.1	The Risk Management Policy be reviewed and approved . Internal Audit will review Risk Management arrangements and recommend improvements to arrangements.	Denise Murray		A	A revised Risk Management Policy has been prepared, presented to SLT and Exec Board in August / September 2017 and due for further acceleration along the decision pathway for endorsement.
10	Risk Management processes need further embedding to provide forward looking views of risk which anticipate risk rather than retrospective reporting of how already known risks are managed	AGS 10.2	The Corporate Risk Register be reviewed, refreshed and approved.	Denise Murray		A	An extensive consultation has occurred in respect of reviewing which risks should feature on the CRR. This has been reviewed by SLT, alongside the risk captured in the previous register to ensure completeness and strategic context is reflected. This will be presented to Audit Committee in November 2017.
11	The Member Development Programme be reviewed and approved.	AGS 11.1	The Members Development Programme is currently being reviewed and formulated. Training sessions and financial briefings to be provided to members	Shahzia Daya		A	The officers supported by the LGA have drafted a programme for Members to develop a programme of essential and desirable skills. this has been shared in draft with party group leaders whilst officers are in the process of re-establishing a Member working group to consider the draft and reshape as appropriate. The member development programme will continue to be supported by the LGA and once endorsed will be rolled out in accordance with an agreed implementation plan.
12	The Protocol for Member /Officer Relations be updated and approved.	AGS 12.1	The Protocol will be reviewed and updated as part of the Constitution review and will be presented to Full Council November 2017	Shahzia Daya		A	The member Protocol will be specifically reviewed and updated as part of the Constitution review, which will be presented to Full for approval Council December 2017
13	The Audit Committee should formally review its effectiveness annually in year and prioritise any improvements for the subsequent reporting period.	AGS 13.1	The Audit Committee should formally review its effectiveness annually in year and prioritise any improvements for the subsequent reporting period.	Denise Murray		A	2016/17 Self assessment carried out and reported to full council, the improvements noted will be implemented in year and this process will continue for 2017/18 and feedback will be sought from the Chair of the Committee re; its effectiveness.
14	Audit report relating to the control and treatment of Council assets identifying lessons learnt from assets disposal be concluded.	AGS 14.1	Audit report to be concluded to identify lessons learnt from asset disposal.	Denise Murray		G	The relevant report has been reviewed, re-drafted and discussed with the relevant management. A review has been undertaken to ensure that policy/procedures are being followed, an outline of best practice and areas of weakness as been identified and these will now be acted upon.

Audit Committee

23rd November 2017



Report of: Service Director: Finance

Title: Treasury Management Mid-Year Report 2017/18

Ward: City Wide

Officer Presenting Report: Denise Murray, Service Director: Finance

Contact Telephone Number: 0117 35 76255

Recommendation

That the Mid-Year Treasury Management report for 2017/18 is noted.

Summary

This report meets the treasury management regulatory requirement that the Council receive a Mid-Year Treasury review report. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans.

The significant issues in the report are:

There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes. The authority has identified a medium term borrowing requirement of £360m and is planning on borrowing £100m to support the delivery of the Capital Programme.



Policy

1. There are no policy implications as a direct result of this report.

Consultation

2. **Internal**
Strategic & Service Directors.
3. **External**
The Council's Treasury Management advisers

Purpose / Context of the report:

4. This report meets the treasury management regulatory requirement that the Council receive a mid-year treasury review report. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's prudential indicators (PIs).
5. That the mid-year report is structured to highlight:
 - The economic outlook;
 - The actual and proposed treasury management activity (borrowing and investment);
 - The key changes to the Council's capital activity (the prudential indicators {PIs}).

Background

6. Treasury management is defined as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

7. The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Treasury management operations aim to ensure that cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
8. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. The management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Introduction

9. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised in 2011) has been adopted by this Council. The primary requirements of the Code are:
 - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;

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- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;
 - Receipt by the Full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year;
 - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions;
 - Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated bodies are Overview and Scrutiny Management Board and Audit Committee.
10. This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:
- An economic update for the 2017/18 financial year to 30 September 2017;
 - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
 - A review of the Council's investment portfolio for 2017/18;
 - A review of the Council's borrowing strategy for 2017/18;
 - A review of any debt rescheduling undertaken or planned during 2017/18;
 - The Council's capital expenditure and (prudential indicators);
 - A review of compliance with Treasury and Prudential Limits for 2017/18.

Key Changes to the Treasury and Capital Strategies

11. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes.
12. The 2017–2020 Treasury Strategy (approved 21st February 2017) identified a medium term net borrowing requirement of £360m to support the existing and future Capital Programme with the debt servicing costs met from revenue savings from capital investment and the economic development fund. The Council's agreed policy is to defer borrowing while it has significant levels of cash balances (£84m at September 2017, £40m estimated for March 2018). The authority is planning on borrowing £100m towards the end of the financial year from the PWLB / alternative market providers based on forecasts within the period 6 Finance Monitoring report, with the net financing costs contained within the existing capital financing budget. No further borrowing is anticipated in the current financial year, unless:
- short term investments fall at a higher pace than expected increasing the liquidity risk of the authority and or;
 - there is a significant change in markets (debt financing costs continue to be at historic low levels) and long term borrowing is deemed advantageous the authority will borrow over periods determined as the most appropriate to reduce the authorities exposure to interest rate risk.

Analysis of Debt and Investments

13. A summary of the of the Council's debt and Investment position as at 30th September 2017 (including forecast at 31st March 2018) compared with 31st March 2017 is shown in the table below:

Debt & Investments	31 st March 2017		31 st September 2017		31 st March 2018	
	Actual		Actual		Forecast	
	£m	Rate% ^{*b}	£m	Rate% ^{*b}	£m	Rate% ^{*b}
Long Term Debt – PWLB	311	5.09	311	4.91	411	4.75
Long Term Debt – Market – LOBO ^{*a}	100	4.11	100	4.11	100	4.11
Long Term Debt – Market – Fixed	23	4.24	20	3.85	20	3.85
Short Term Borrowing	-	-	-	-	-	-
Total Debt	434	4.81	431	4.68	531	4.58
Investment	70	0.57	84	0.44	40	0.50
Net Borrowing Position	364		347		491	

^{*a} Lender option Borrower option, ^{*b} reflects the average rate for the year taking account of New loans and repayments.

We are currently achieving a return of 0.44% on our investments for the period to 30th September 2017. The return for the year is anticipated to rise following the recent change in base rate to 0.50% on the 2nd of November with investment rates gradually rising in line with this change. The authority's advisors are also forecasting the next rise in base rate to 0.75% around the turn of the following calendar year (December 2018). Long term interest rates are expected to remain at or around 2.75% (for 25 year term) for the remainder of the year.

Economic Update

14. **UK** – The UK surprised with strong growth in 2016 but growth in 2017 has been weak; quarter 1 +0.3% (+1.7% y/y) and quarter 2 +0.3% (+1.5% y/y) which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, increasing the cost of imports. This has resulted in a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of GDP, has seen weak growth as consumers cut back. However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. Growth in the EU, our main trading partner has improved significantly over the last year. However, this sector only accounts for around 11% of GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole.
15. The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a more aggressive tone in terms of its words around warning that Bank Rate will need to rise. The Bank of England Inflation Reports during 2017 have clearly flagged up that they expected CPI inflation to peak at just under 3% in 2017, before falling back to its target rate of 2% in two years' time. Inflation was 2.9% in August, so

the Bank revised its forecast for the peak to over 3%. This marginal revision does not justify why the MPC became more aggressive with its wording; rather, the focus was on an emerging view that with unemployment falling to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of increasing globalisation. This effectively means that the UK labour faces competition from overseas labour e.g. in outsourcing work to third world countries, and this therefore depresses the negotiating power of UK labour. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so would be inflationary over the next few years.

It was originally anticipated that the next likely rise in base rate to 0.50% would either be November 2017 or February 2018, with the first rate rise in 10 years being November 2017. The big question will be whether this will be a one off increase or the start of a slow, but regular, increase in Bank Rate. The governor of the bank of England has indicated two more rates rises over the next two years to reach 1.0% by 2020.

At the start of November, short sterling rates are indicating that financial markets do not expect a second increase until September 2018 with a third increase in September 2019. However, some forecasters are expecting growth to improve significantly in 2017 and into 2018, as the fall in inflation will bring to an end the negative impact on consumer spending power while a strong export performance will compensate for weak services sector growth. If this scenario were to materialise, then the MPC would have added reason to start a series of slow but gradual increases in Bank Rate during 2018. While there is much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too “early” to be confident about how the next two years will materialise.

16. **USA.** The American economy has been volatile in 2015 and 2016. 2017 is following a similar path with quarter 1 1.2% and quarter 2 rebounding to 3.1%, resulting in an overall annualised figure of 2.1% for the first half year. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.4%, while wage inflation pressures, and inflationary pressures in general, have been increasing. The Federal Reserve has started gradually lifting rates with three increases since December 2016; and there could possibly be one more rise in 2017 which would lift the central rate to 1.25 – 1.50%, with a possibility of another four increases in 2018. At its June meeting, the Federal Reserve hinted that it would soon begin to unwind its \$4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.
17. **Europe.** Economic growth in the EU, (the UK’s biggest trading partner), has faltered for several years since the financial crisis despite the European Central Bank eventually cutting its main rate to -0.4% along with a significant Quantitative Easing programme. Growth picked up in 2016 and now looks to have gathered strength and momentum as a result of this stimulus. GDP growth was 0.5% in quarter 1 (2.0% y/y) and 0.6% in quarter (2.3% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in August inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019.

Interest rate forecasts

18. The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	NOW	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
BANK RATE	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00
3 month LIBID	0.40	0.40	0.40	0.40	0.40	0.60	0.60	0.60	0.70	0.90	0.90
6 month LIBID	0.45	0.50	0.50	0.50	0.60	0.80	0.80	0.80	0.90	1.00	1.00
12 month LIBID	0.65	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.10	1.30	1.30
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.10
10 yr PWLB	2.10	2.10	2.20	2.30	2.40	2.40	2.50	2.60	2.60	2.70	2.70
25 yr PWLB	2.70	2.80	2.90	3.00	3.00	3.10	3.10	3.20	3.20	3.30	3.40
50 yr PWLB	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10	3.20

19. Capita Asset Services undertook its last review of interest rate forecasts on 7th November after the Bank of England Meeting where bank rate was increased to 0.50% and indicated a further rises to 1.0% by 2020.
20. The overall trend is for gilt yields and PWLB rates to rise gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities. However, we have been experiencing exceptional levels of volatility in financial markets which have caused significant swings in PWLB rates.
21. The overall balance of risks to economic recovery in the UK is currently to the downside but large variables over the coming few years exist including what the final form Brexit will take and when.

The downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate
 - Weak growth or recession in the UK's main trading partners - the EU and US.
 - Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows.
 - A resurgence of the Eurozone sovereign debt crisis.
 - Weak capitalisation of some European banks.
22. The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up within the UK economy, which then requires a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The pace and timing of increases in the Federal Reserve funds rate causing a reassessment by investors of the risks of holding bonds as opposed to equities and leading to a major move from bonds to equities.

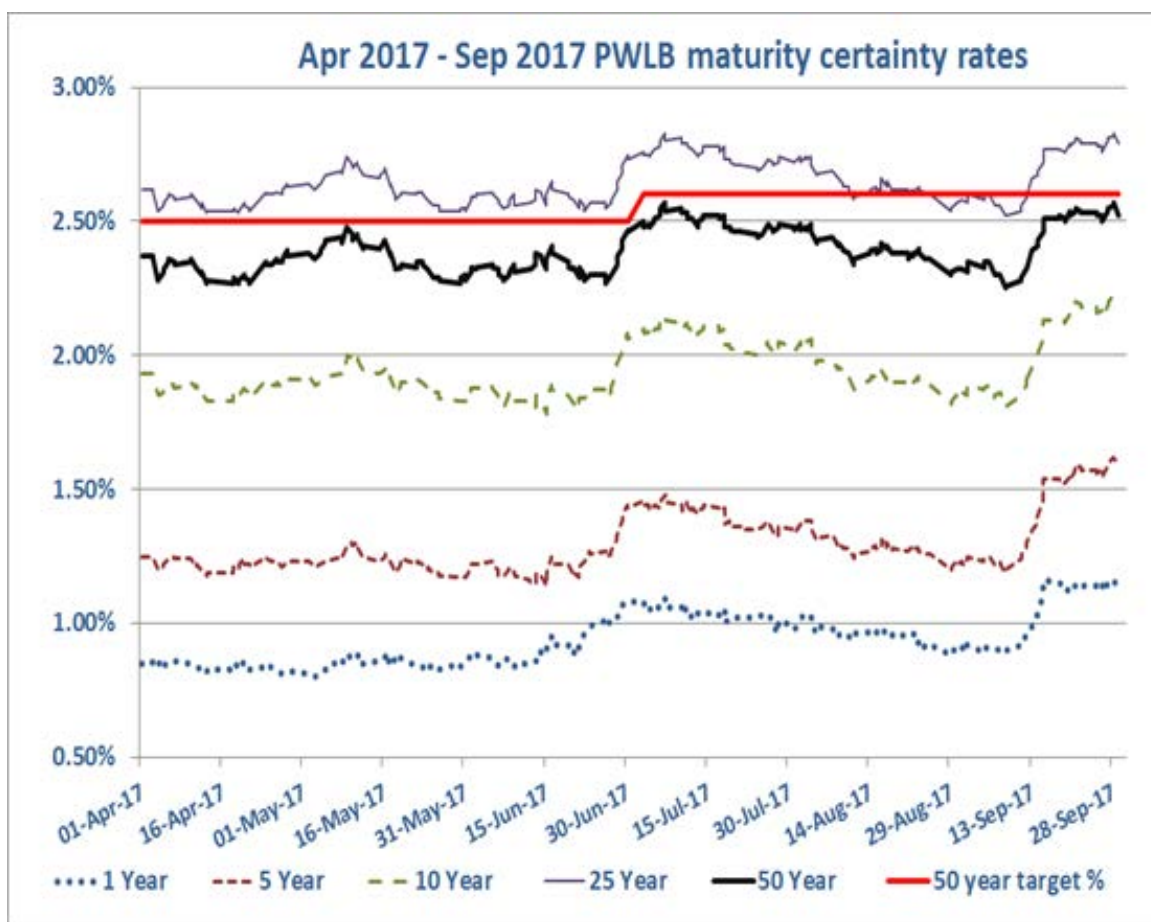
Investment Portfolio 2017/18

23. In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in the "Economic Update" it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.50% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment investment returns are likely to remain low.
24. The Council held £84m of investments as at 30 September 2017 (£70m at 31 March 2017) with an average maturity of 75 days. These investments are predominately with UK banks, local authorities and money market funds. The investment portfolio yield for the first six months of the year is 0.44%. The standard comparator for investment performance is the benchmark 7 day rate (LIBID)¹, which for the period was 0.11%. The benchmark for 3 month deposits was 0.18%.
1LIBID – London Interbank Bid rate is a recognised reference rate to benchmark short-term investment interest rates.
25. The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2017/18.

Borrowing

26. The Capital Financing Requirement (CFR) denotes the Council's underlying need to borrow for capital purposes. The Council's CFR at 31 March 2018 is estimated to be £876m. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing).
27. The balance of borrowing between external and internal is generally driven by market conditions and forecasts of future cash flows and interest rates. At the 31st March 2017 the Council had external borrowings of £580m and has utilised £253m of internal cash in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require on-going monitoring in the event that upside risk to gilt yields prevails.
28. However, internal borrowing is a temporary measure that takes advantage of low interest rates and will ultimately be replaced by more expensive external borrowing as the cash used is required elsewhere. The timing and amount of new external borrowing is therefore dependent on capital spending decisions, future cash flows and forecasts of interest rates.

29. The Council are planning on borrowing £100m at the end of the financial year from the PWLB or Capital markets to fund the Capital Programmes. The net financing costs of such borrowing will be contained within the existing capital financing budget.
30. Should debt financing costs continue to historic low levels, and with a significant capital programme predominately financed by borrowing the Council will consider further borrowing if rates continue to fall or are anticipated to rise at a higher pace than expected. This will enable the authority to take advantage of a low interest rate environment and reduce the interest rate risk of the authority.
31. The trend in interest rates was a rise during the first six months of the year, across all maturity bands. The graph below show the movement in PWLB (certainty) rates for the first six months of the year to 30th September 2017:



Debt Rescheduling

32. Debt rescheduling opportunities have been limited in the current economic climate given the consequent structure of interest rates. The authorities debt portfolio is made up of long dated loans (PWLB £311m, Market Debt (LOBOS) £100m and Market Debt (Fixed) £20m) averaging 34 years. The estimated penalty to repay the PWLB loans early is £223m, taking the total cost to £534m. In respect of the market loans, where indicative prices have been provided, a similar

level of penalty has been quoted.

The total life cycle cost of rescheduling loans on a discounted cash-flow basis has been reviewed with no loans providing a positive cash-flow benefit to the authority. This would in part be due to large early repayment penalties that the authority will incur.

For these reasons no debt rescheduling has been undertaken during the first six months of the year and none is anticipated for the remainder of the year.

Ethical Policy

33. An Ethical Investment Policy is incorporated within the Treasury Management Practice Statements (TMPS). The City Council currently invest surplus funds with Banks and Building Societies either directly or via the Money Markets in the form of instant access cash deposit accounts, money market funds or on fixed term deposit and with other local authorities. The City Council's ethical investment policy is based on the premise that the City Council's choice of where to invest should reflect the ethical values it supports in public life. The City Council will not knowingly invest in organisations whose activities include practices which directly pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the mission and values of the City Council.

Other

34. **Revised CIPFA Codes**

The Chartered Institute of Public Finance and Accountancy, (CIPFA), is currently consulting local authorities on revising the Treasury Management Code and the Prudential Code, with a view to issuing revised codes during the autumn.

A particular focus of this is how to deal with local authority investments which are not treasury type investments such as investing in commercial property investments that historically over time tend to generate higher level income streams than typical treasury investments. One recommendation is that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the authority have been apportioned between treasury and non-treasury investments. Officers are monitoring developments and will report to members when the new codes have been agreed and issued and on the likely impact.

35. **MIFID II (Markets in Financial Instruments Directive)**

The European Union has now set a deadline of 3 January 2018 for the introduction of regulations under MIFID II. These regulations will govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This will have little effect on this authority apart from the completion on annual forms sent by each institution dealing with this authority and for each type of investment instrument that we currently use apart from standard cash deposits with banks and building societies.

The Council's Capital Position (Prudential Indicators)

36. This part of the report is structured to update:
- The Council's capital expenditure plans;

- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure

37. This table shows the latest estimates for capital expenditure:

Capital Expenditure by Service	2017/18 Original Estimate £m	2017/18 Period 6 Forecast £m
Non-HRA	173	150
HRA	41	34
Total	214	184

38. The latest capital monitoring report for the end of September 2017 sets out a capital forecast of £184m as detailed within the period 6 monitoring report also presented to Cabinet on the 12th December 2017.

Financing of the Capital Programme

39. The table below draws together the capital expenditure plan and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2017/18 Original Estimate £m	2017/18 Period 6 Forecast £m
Total spend	214	184
Financed by:		
Capital receipts	3	2
Capital grants	39	40
Revenue / Reserves	17	20
HRA – Self Financing	25	25
Prudential Borrowing – Increase in Capital Financing Requirement	130	97
Total financing	214	184

Capital Financing Requirement (CFR) & Operational Boundary

40. The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose and it also shows the expected debt position over the period. This is termed the Operational Boundary.

	2017/18 Original Estimate £m	2017/18 Revised Estimate £m
Capital Financing Requirement		
CFR – non housing	667	631
CFR – housing	245	245
Total CFR	912	876
External Debt (Operational Boundary)		
Borrowing	565	531
Other long term liabilities*	152	152
Total debt 31 March	717	683

* On balance sheet PFI schemes and finance leases etc.

41. The revised Capital Financing Requirement is based on the actual CFR as at 31 March 2017 (£787m) increased by in-year capital expenditure financed by borrowing (£97m) and reduced by the minimum revenue provision (MRP) for repayment of debt (£8m).

Limits to Borrowing Activity

42. The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2017/18 Original Estimate £m	2017/18 Revised Estimate £m
Gross borrowing	565	531
Plus other long term liabilities*	152	152
Gross borrowing & long term Liabilities	717	683
CFR* (year-end position)	912	876

* Includes on balance sheet PFI schemes and finance leases etc.

43. The Chief Finance Officer reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.
44. A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3(1) of the Local Government Act 2003.

Authorised limit for external debt	2017/18 Original Indicator	2017/18 Revised Indicator
Total Borrowing	930	900

Proposal

45. That the Mid-Year Treasury Management report for 2017/18 is noted.

Other Options Considered

46. None

Risk Assessment

47. Borrowing and lending activity is reported to the Mayor.

The principal risks associated with treasury management are:

Risk	Mitigation
Loss of investments as a result of failure of counterparties	Limiting the types of investment instruments used, setting lending criteria for counterparties, and limiting the extent of exposure to individual counterparties
Increase in the net financing costs of the authority due to borrowing at high rates of interest / lending at low rates of interest	Planning and undertaking borrowing and lending in light of assessments of future interest rate movements, and by undertaking most long term borrowing at fixed rates of interest (to reduce the volatility of capital financing costs)

Public Sector Equality Duties

48. a) 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.
- b) There are no proposals in this report, which require either a statement as to the relevance of public sector equality duties or an Equalities Impact Assessment.

Legal and Resource Implications

Legal

The Council is under a duty to manage its resources prudently and therefore due consideration must always be given to its borrowing and lending strategy. A wide range of local authority financial activities, including borrowing, lending, financial management, and the approval of types of investment vehicle are governed by legislation and various regulations. The Council is obliged to comply with these.

(Legal advice provided by Shahzia Daya - Service Director - Legal and Democratic Services)

Financial

(a) Revenue

The financing costs arising from planned borrowing are provided for in the revenue budget and medium term financial plan. Any additional operating costs will have to be contained within the revenue budget of the relevant department.

(Financial advice provided by Jon Clayton (Principal Accountant))

(b) Capital

Not applicable

Land

Not applicable

Personnel

Not applicable

Appendices:

None

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:

None

Audit Committee

23rd November 2017



Report of: **Shahzia Daya Monitoring Officer and Service Director Legal and Democratic Services**

Title: **DBS checks for Members of the Council**

Ward: **Citywide**

Officer Presenting Report **Nancy Rollason, Head of Legal Service**

Recommendation

1. To note that that Basic checks will be undertaken in respect of all Members and that Enhanced checks without Barred list checks will be undertaken in respect of Members who occupy specific roles as set out below.
2. That a policy will be drafted to give effect to recommendation 1

Summary

A report was requested by the Audit committee in respect of the level of checks that should be undertaken in respect of elected Members of the Council. It sets out the relevant legislation, DBS guidance and practice elsewhere and seeks agreement to the proposed approach to Disclosure and Barring Service.

The significant issues in the report are:

There is no policy in place for DBS checks for Councillors

The law specifies that the Council is entitled but not required to undertake checks for Councillors who discharge Education and Social Service functions.

This approach is confirmed by the DBS

There is no unified approach nationally and there are differing interpretations of Education and Social Services Functions

Consultation

1. **Internal - Director of Childrens Services, Director of Adult Services, Strategic Director Resources, Head or HR**
2. **External - DBS, LGA, Authorities set out in Appendix 1**

Context

The Disclosure and Barring Service

1. The Protection of Freedoms Act 2012 ("PFA") introduced changes to the arrangements for carrying out criminal records checks. One of the key changes involved the merger of the Criminal Records Bureau ("CRB") and the Independent Safeguarding Authority ("ISA") in December 2012 to form a new body called the Disclosure and Barring Service ("DBS").
2. The DBS is a non-departmental public body, sponsored by the Home Office. The DBS provides access to criminal records and other relevant information for organisations in England and Wales and is also responsible for investigating safeguarding concerns and maintaining the barred lists for Children and Adults and the combined list (these are statutory lists containing details of people considered unsuitable to work with children and/or adults).

Level of DBS Checks that can be applied for from the DBS

3. Basic disclosure certificate - shows any 'unspent convictions' someone may have in the UK. A basic disclosure shows a conviction record at a point in time, so there is no set time that it lasts for. Individuals can apply and pay for a basic Disclosure themselves. This is not the same as a DBS Standard check.
4. Standard - checks for spent and unspent convictions, cautions, reprimands and final warnings.
5. Enhanced , this includes the same as the standard check plus any additional information held by local police that is reasonably considered relevant to the role being applied for.
6. Enhanced with barred list checks, this is like the enhanced check, but includes a check of the DBS barred lists. An employer can only ask for a barred list check for specific roles. It's a criminal offence to ask for a check for any other roles.
7. The level of DBS check that can be submitted for a Councillor depends on the role that is being carried out and is based on whether "Regulated activity" as set out by the Safeguarding Vulnerable Groups Act 2006 (detail below) is being undertaken.
8. The Police Act 1997 Regulations set out which roles are eligible for enhanced DBS checks. This includes undertaking regulated activity. The definition of regulated activity is set out below:

New definition of Regulated Activity

9. There are now two definitions of 'regulated activity' (originally defined in the Safeguarding Vulnerable groups Act 2006 (SVGA):

(i) the definition following the changes introduced by the Protection of Freedoms Act 2012 which restricts regulated activity as set out below:

Regulated Activity in relation to Children

- i. Unsupervised activities: teaching, training, instructing, caring for or supervising children, or providing advice/guidance on well-being, or driving a vehicle only for children;
- ii. Work for a limited range of establishments ('specified places'), with opportunity for contact: for example, schools, children's homes, childcare premises. Not work by supervised volunteers.

Work under (i) or (ii) is Regulated Activity only if done regularly (carried out by the same person once a week or more often or on 4 or more days in a 30-day period);

- iii. Relevant personal care, for example washing or dressing; or health care by or supervised by a professional;
- iv. Registered child-minding; and foster-carers.

Regulated activity relating to adults

- i. Providing health care;
- ii. Providing personal care (e.g. providing/training/instructing/or offering advice or guidance on physical assistance with eating or drinking, going to the toilet, washing or bathing, dressing, oral care or care of the skin, hair or nails because of an adult's age, illness or disability; or prompting and supervising an adult to undertake such activities where necessary because of their age, illness or disability);
- iii. Providing social work;
- iv. Providing assistance with cash, bills and/or shopping;
- v. Providing assistance in the conduct of a person's own affairs, e.g. by virtue of an enduring power of attorney;
- vi. Conveying- transporting an adult because of their age, illness or disability either to or from their place of residence and a place where they have received, or will be receiving, health care, personal care or social care; or between places where they have received or will be receiving health care, personal care or social care. This will not include family and friends or taxi drivers.

(ii) the 'saved' definition of Regulated Activity from the SVGA which provides that a Member or co-optee will be undertaking regulated activity if they:

10. (a) discharge, as a result of their membership, any education or social services functions of the Council;
- (b) are a Cabinet Member (the Cabinet discharges education and social services functions);
- (c) are a Member of a committee of the Cabinet (there are currently no such committees); or
- (d) they are a Member of a committee of the Council which discharges education or social services functions.

Other points to note

11. Requiring an Enhanced check is a substantial interference with a person's right to respect for private life under Article 8 of the European Convention on Human Rights.
12. DBS checks carried out by the Council are only relevant for Councillors acting in their capacity as Councillors. If Councillors carry out roles outside of this capacity involving work with children or adults (for example, volunteering with the scout movement or in a children's centre), it is their responsibility to check with the relevant organisation regarding that organisation's own DBS checking requirements.
13. Councillors who do not carry out any of the specific educational and/or social service functions set out above but who attend community events, take surgeries or visit local residents in their own home where they have access to the general public including children do not meet the legislative criteria but a Basic Check from Disclosure Scotland could be requested.
14. In seeking to identify the appropriate options to propose to Councillors in relation to the undertaking of DBS checks for Councillors, the DBS, LGA and other local authorities have been consulted. The LGA does not have a policy on this and there are a range of practices in Councils nationwide. The DBS position (see appendix 2) supports the recommended option.
15. Most Councils consulted undertake Enhanced DBS checks for some or all of the Cabinet, and for elected Members who sit on committees or boards that have an education or social services functions. The minority of Councils require Enhanced or Standard DBS checks, or a basic disclosure, for all Councillors. (see appendix 1)

Cabinet and Committees that are eligible for Enhanced Checks

16. In relation to the Council's Cabinet and committees that discharge education or social services functions for the purposes of the saved definition of regulated activity, whether enhanced checks are needed will depends on whether functions are actually being discharged as opposed to a committee scrutinising, advising upon or otherwise having an interest or stake in education or social care functions. On that basis it is recommended that those eligible for Standard or Enhanced checks are members of Cabinet and the Corporate Parenting Panel.

Other Options Considered

3. To carry out no DBS checks.

Without any checks taking place it would not be possible to check an individual's background and determine whether an appointment to a particular role may be less suitable for them in light of a relevant disclosure. In order to protect those who are most vulnerable in society it is proposed that this option be rejected

4. To carry out basic checks for all Members and co-optees.

Certificates list unspent convictions. The Council can request basic certificates in respect of any elected Member or co-optee and this gives basic information sufficient for most Council roles but does not provide the level of detail required for some responsibilities

5. To carry out enhanced DBS checks with a check of the barred lists

The council is has a duty to seek this check for employees who are undertaking regulated activity. Members are highly unlikely to be undertaking regulated activity in that capacity.

6. To carry out Standard or Enhanced DBS checks in relation to all Members

The Council is only entitled to request that DBS checks be carried out in relation to Members who fall within the saved definition of Regulated activity. The Council is not, therefore entitled to request Standard or Enhanced checks for all members.

Legal and Resource Implications

Legal

As set out in the report

Legal advice provided by Nancy Rollason Head of Legal service

Financial

Revenue

There will be an initial cost of approx. £2500 pounds, which will occur every three years, if that is the agreed review period. In between there will be a small charge if any new members are elected. No budget has been identified for these costs

Dave Willis – Finance Business Partner

Human Resources

HR will be asked to process and monitor the DBS checks for Members and at this time it can be absorbed within the current resource

HR advice provided by Jacquie McGeachie Interim Head of HR

Appendices:

Appendix 1 – Other Authorities approach to DBS checks for Members

Appendix 2 – Guidance from the DBS on checks for Members

Background Papers: None

Appendix 1: DBS Checks for Elected Members – policies of other local authorities and the LGA

Council	Policy
The LGA	The LGA do not have a specific policy. They say that any member who would have contact with children as part of their role should be DBS checked. They are aware that some councils do require all of their elected members to undertake DBS checks, although this is an operational decision taken by individual councils and not something that the LGA specifically recommend.
Sheffield City Council	DBS checks will only be required for roles which involve children and young people: the Leader, Cabinet Members for Children and Young People, and for Health and Social Care, as well as relevant Cabinet Advisers and Shadow Cabinet Member, and members of the Licensing Committee, and Corporate Parenting – Link Members (visitors to residential facilities)
Brighton and Hove City Council	Members involved with children and adults service committees/groups are checked to an enhanced level without barred lists.
Rotherham Metropolitan Borough Council	All Councillors undergo standard DBS checks, certain Councillors (Leader, Deputy, Cabinet Member for Adult Social Care, and others) undergo enhanced check.
Cornwall Council	Cabinet Members and those on Adoption and Fostering Panels are subject to an Enhanced DBS without Barred List check. All other members and co-opted persons have a Basic Check.
Waltham Forest Council	No Councillors undertake DBS checks.
Wolverhampton City Council	All councillors undertake standard DBS checks.
East Sussex County Council	Undertake Enhanced DBS with Barred List checks on member roles that meet the definition of 'Regulated Activity'. Currently they do not class any member roles as being in Regulated Activity, so complete no checks.
Surrey County Council	Currently complete Enhanced DBS check for all members, but have recently been challenged by the DBS on this approach. They are now reviewing their stance, and are only undertaking enhanced checks for members who meet the regulated activity test Basic Checks only for all other members.
Kent County Council	Adoption and Fostering Panel members are subject to an Enhanced DBS with Barred List check. All other elected members are subject to an Enhanced DBS without Barred List check.
Nottinghamshire County Council	Undertake enhanced checks on all Councillors
Ashfield District Council	Undertake enhanced checks on all Councillors

Appendix 2: DBS position on Checks for Members as at September 2017

Dear Mr Horwitz,

Thank you for your email dated 6 September 2017 regarding your enquiry. This has been passed to me for reply.

It may be helpful if I begin by advising that the Protection of Freedoms Act 2012 significantly amended definitions of regulated activity with children and adults. This impacted on the level of DBS check that is available for Local Authority Councillors. The level of DBS check that can be submitted for a Councillor depends on the role that is being carried out and it is important to note that not all Councillors will be able to get a DBS check.

If a Councillor carries out educational and/or social service functions relating to children and/or adults who receive a health or social care service, an enhanced DBS check without a check of any barred list can be requested.

The position of Councillor is not a standalone position listed in the Rehabilitation of Offenders Act 1974 (Exceptions) Order 1975. However, carrying out a role which would have been regulated activity before the amendments made by the Protection of Freedoms Act 2012 is in the Exceptions Order and so entitlement for a councillor to be checked through the DBS at enhanced level can be found in the Police Act regulations work with children and work with adults definitions but only if they carry out specific functions.

Councillors who carry out education or social services functions relating to children

The Police Act 1997 (Criminal Records) (Amendment No.2) Regulations 2013 definition of work with children sets out which roles are eligible for enhanced DBS checks. This includes a provision at 5C(1)(A) which states:

“considering the applicant’s suitability to engage in any activity which is a regulated activity relating to children within the meaning of Part 1 of Schedule 4 to the Safeguarding Vulnerable Groups Act 2006 as it had effect immediately before the coming into force of section 64 of the Protection of Freedoms Act 2012”.

In relation to Councillors, the specific reference is set out below.

A person is a member of a relevant local government body if –

- i. he is a member of a local authority and discharges any education functions, or social services functions, of a local authority;*
- ii. he is a member of an executive of a local authority which discharges any such functions;*
- iii. he is a member of a committee of an executive of a local authority which discharges such functions*
- iv. he is a member of an area committee, or any other committee, of a local authority which discharges such functions.*

This includes a reference to any sub-committee which discharges any such functions.

What level of check can be requested?

If any of the conditions above are met then a Councillor would be eligible for an enhanced DBS check without a check of the children's barred list.

Councillors who carry out social services functions relating to adults

The Police Act 1997 (Criminal Records) (Amendment No.2) Regulations 2013 definition of work with adults sets out which roles are eligible for enhanced DBS checks. This includes a provision at 5B(1)(g) which states:

The exercise of a function of a person who is ;

- i. a member of a local authority and discharges any social services functions of a local authority which relate wholly or mainly to adults who receive a health or social care service within the meaning of paragraph (9) or a specified activity within the meaning of paragraph (10);*
- ii. a member of an executive of a local authority which discharges any such*
- iii. functions;*
- iv. a member of a committee of an executive of a local authority which*
- v. discharges any such functions; or*
- vi. a member of an area committee, or any other committee, of a local authority*
- vii. which discharges any such functions;*

In summary the services would be related to residential care, providing direct payments support services and specialist transport but please see the link below for full details of paragraph 9 and 10 in the regulations.

Other circumstances

Councillors who do not carry out any of the specific educational and/or social service functions but who attend community events, take surgeries or visit local residents in their own home where they have access to the general public including children do not meet the legislative criteria but a Basic Check from Disclosure Scotland could be requested.

Roles that are eligible for a barred list check and meet the definition of regulated activity with children and/or adults are entitled to a barred list check. The Department for Education has issued guidance on this matter for regulated activity with children, and the Department of Health has issued guidance for regulated activity with adults. Please see:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/550197/Regulated_activity_in_relation_to_children.pdf

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/216900/Regulated-Activity-Adults-Dec-2012.pdf

In addition, there are some roles that are not classed as regulated activity but are eligible for a barred list check. Details of these roles are available within the DBS

Children and Other Workforce guidance, which is available at <https://www.gov.uk/government/publications/dbs-workforce-guidance>.

I trust you find this information helpful.

Please note your DBS Customer Services Correspondence Number is in the Subject line of this email which is the first 9 digits. Please use this reference when corresponding with the DBS via email or letter as it helps us to associate your correspondence quickly and to provide the best possible service. [This is only for correspondence and is not your Form/Ebulk/CRM/Subscription number which relate to your disclosure application.]

Yours Sincerely,

Damian Bell
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