

Bristol City Council

Minutes of the Audit Committee

26 July 2018 at 1.00 pm



Members present:-

Councillors: Mark Brain, Olly Mead, Anthony Negus, Liz Radford, Clive Stevens

Independent member: Adebola Adebayo

Officers in attendance:-

Denise Murray, 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

Tony Whitlock, Finance Manager

Jan Cadby, Risk Manager

David Lawrence, Shareholder Liaison Director

Quentin Baker, Interim Director – Legal and Democratic Services

Nancy Rollason, Head of Legal Service and Deputy Monitoring Officer

Ian Hird, Democratic Services

Matthew Toms, GDPR Project Manager

Steve Somerfield, Interim Director – ICT

Ian Gale, ICT Service Manager

Also in attendance:

David Eagles, Donald Plane and Chris Wlaznik, BDO (External Auditor)

1. Apologies and safety information

At the start of the meeting, it was noted that the Chair, Cllr Mead would unavoidably be arriving slightly late for this meeting (and had sent apologies to this effect).

Cllr Stevens (as Vice-Chair) therefore took the chair and welcomed everyone to the meeting. He also reminded those present of the safety information as detailed on the agenda.

Apologies were received from Simon Cookson (independent member), Cllr Pearce and Cllr Shah.



2. Declarations of interest

In relation to agenda item 9 (Internal Audit activity report):

- * Cllr Radford advised that her husband was an employee of Bristol Port Company.
- * Cllr Brain advised that he was a trustee of Hawkspring (drug and alcohol support services).

3. Minutes of previous meetings - to be confirmed as a correct record

a. Minutes - Audit Committee – 29 March 2018

RESOLVED:

That the minutes of the meeting of the Audit Committee held on 29 March 2018 be confirmed as a correct record.

b. Minutes - Extraordinary Audit Committee – 2 May 2018

RESOLVED:

That the minutes of the extraordinary meeting of the Audit Committee held on 2 May 2018 be confirmed as a correct record.

c. Minutes - Audit Committee – 31 May 2018

RESOLVED:

That the minutes of the meeting of the Audit Committee held on 31 May 2018 be confirmed as a correct record.

4. Action sheet from previous meeting

The action sheet (tracking actions agreed at the 31 May meeting of the committee) was noted.

5. Public forum

None.

6. Work programme

The latest update of the work programme was noted.

7. Final Statement of Accounts 2017-18

(Note: the details set out in this section of the minutes also affect item 8 - BDO ISA 260 report and item 10 – Annual Governance Statement 2017-18).



The External Auditor gave a verbal update on the progress of their audit of the Council's 2017-18 accounts and related matters. In terms of the overall position, the External Auditor advised that the audit was not yet completed as there were a number of outstanding queries and issues (identified from the audit process) to be resolved. Given this, it was not going to be possible for the committee to receive the Final Statement of Accounts for approval at the Extraordinary meeting of the committee scheduled for 31 July. The External Auditor's ISA 260 report would also not be completed by 31 July. The issues currently outstanding in relation to the audit included:

- a. Heritage assets (increase in valuation for insurance purposes): Further work was taking place to review the adjustment and disclosures in the final set of accounts.
- b. Pension liability assumptions: Clarification was being sought in relation to mortality assumptions.
- c. Severance payment in respect of former Chief Executive: Clarification was being sought from BCC officers relating to the interpretation of the employment contract.
- d. Management override of controls: In addition to pension assumptions, there was outstanding work in relation to property, plant, equipment and investment properties.
- e. Risk of fraud in expenditure recognition: The External Auditor was awaiting documentation from the Council in relation to a number of items of expenditure to confirm that amounts had been recorded in the correct period.
- f. Non-domestic rates appeals provision: The value of the appeals provision had increased to over £20m. Further information was awaited from the Council to confirm possible reclassification from the appeals provision to creditors.

In terms of context, it was also noted that the date for finalising the accounts had been brought forward 2 months compared to previous years. There had also been a change during the past year in terms of the BDO staff allocated to the audit of the BCC accounts although the External Auditor confirmed that this change had not impacted on BDO's capacity and ability to deliver the audit.

In discussion, the following points were raised/noted/clarified:

- a. The Chair and members were very concerned that the committee was not going to be in a position to approve the accounts by the 31 July deadline.
- b. Queries were raised as to whether the External Auditor had allocated sufficient resources to this audit. In response, the External Auditor advised that the audit had been appropriately resourced from the outset. Additional resource had also been allocated as issues for further investigation had been identified as the audit had progressed.

Cllr Mead arrived at the meeting at this point and took the Chair.

- c. In relation to the issue of the severance payment in respect of the former Chief Executive, the External Auditor confirmed that information was awaited in relation to BCC's interpretation of the employment contract.
- d. The External Auditor confirmed that a number of local authorities were facing the position of not being able to approve their finalised 2017-18 accounts by the 31 July deadline.
- e. It was noted that in light of the fact that the finalised accounts and ISA 260 report would not be able to be considered at the 31 July Extraordinary meeting, the committee's consideration of the final Annual Governance Statement 2017-18 would also need to be deferred.



Following further discussion, it was

RESOLVED:

- 1. That the External Auditor be requested to submit a written audit progress report on their audit of the BCC accounts for the year ended 31 March 2018 to the Extraordinary meeting of the committee scheduled for 31 July.**
- 2. That it be noted that Cllr Cheney, Cabinet member for Finance, Governance and Performance will be briefed on the position regarding the audit.**
- 3. That it be noted that once the audit has been completed, a further Extraordinary meeting of the committee will be arranged to enable the committee to consider the following items:**
 - * Finalised Statement of Accounts for the year ended 31 March 2018**
 - * BDO (External Auditor) ISA 260 report 2017-18**
 - * Final Annual Governance Statement 2017-18**

8. External Auditor ISA 260 report

Item deferred. See minute no. 7 above.

9. Internal Audit activity report

The committee considered the latest Internal Audit activity report.

The Chair reminded the committee that in relation to the section of the report setting out summaries of completed audits, an exempt appendix had been prepared by officers in relation to some of these summaries. At the appropriate point in the meeting, the committee would be asked to agree the required resolution to exclude the press and public from the meeting whilst those particular matters were discussed.

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

- a. For quarter 1, planned work was below target as resources had been used predominantly to finalise assignments from the 2017-18 plan and certify grant claims. Some progress had, however, been made on assignments in 2018-19 plans.
- b. The Annual Governance Statement had been drafted, consulted on and finalised and (as per the discussion earlier at this meeting) would be brought to the committee for final approval once the committee had approved the finalised 2017-18 accounts and received BDO's ISA 260 report for 2017-18.
- c. Proactive counter-fraud work continued to identify a good level of recoverable savings and had resulted in a number of recovered council tenancies.



- d. The recommendation implementation rate was currently 84% implemented or partially implemented.

Main points then raised/noted/clarified in relation to the summaries of completed audits (reference numbers quoted below relate to those used in the report):

A - Corporate / Adults, Children and Education

A1 - Contract management:

7 Internal Audit recommendations for improvement had been agreed, including recommendations to address the following areas /findings:

- * There was no corporate framework for managing contracts.
- * There was no formal training or establishment of baseline competencies for contract managers.
- * There was little evidence of contract risks being formally mapped in a standard and structured manner; also, the Corporate Risk Register and Directorate Risk Registers did not include risks associated with contract management.

A significant amount of improvement action was being taken in relation to contracts and procurement. Further to the discussion at the 31 May meeting of the committee, a specific report on action being taken to improve the situation with regard to contract waivers would be submitted to the 20 September meeting of the committee.

A2 - Adult Care Provider Failure:

The outcomes of this review, as highlighted, were noted. The Internal Audit recommendations had been agreed for implementation.

A3 - Adult Social Care (ASC) Commissioning:

The outcomes of this review, as highlighted, were noted. The Internal Audit recommendations had been agreed for implementation.

A4 - Changes to Payment Terms:

The outcomes of this review, as highlighted, were noted. The Internal Audit recommendations had been agreed for implementation. New procurement regulations were in place as part of the constitutional changes approved at the 22 May Annual Council meeting.

A5 - Voluntary Sector Commissioning:

The outcomes of this review, as highlighted, were noted. The Internal Audit recommendations had been agreed for implementation.

C - Corporate

C1 - Partnership Governance:



The outcomes of this review, as highlighted, were noted. It was also noted that, based on the completion of the fieldwork, a Limited Assurance audit opinion had been assigned. The Internal Audit recommendations had been agreed for implementation.

D – Adults, Children and Education

D1 - Schools Financial Governance:

Audit reviews were undertaken at 5 BCC schools / nurseries to provide assurance that controls relating to financial administration and governance were effective. An overarching report was also prepared, collating the themes and giving oversight of school financial governance, for example in relation to financial support provided to schools. This review resulted in a Limited Assurance audit opinion being assigned.

The Internal Audit recommendations had been agreed for implementation.

In discussion, members asked for confirmation to be provided as to whether the governing bodies of all maintained schools have BCC councillor representation.

D2 - SS Peter and Paul Catholic Primary School:

The outcomes of this review, as highlighted, were noted. The Internal Audit recommendations had been agreed for implementation.

D3 - Schools Financial Value Standard Return:

The outcomes of this review, as highlighted, were noted. The Internal Audit recommendations had been agreed for implementation.

E – Growth and Regeneration

E1 - Major Projects Delivery

The outcomes of this review, as highlighted, were noted. The Internal Audit recommendation around clarifying the Growth and Regeneration Board's role, remit / terms of reference, governance and reporting arrangements had been agreed for implementation.

E2 - Investment Property Portfolio

The outcomes of this review, as highlighted, were noted. The Internal Audit recommendations had been agreed for implementation.

In discussion the committee noted with concern the finding identified in the review that there was little evidence of progress in developing an overarching corporate property investment policy as had been stated in the presentation made to the Place Scrutiny Commission in December 2016.

F – Resources:



F1 - Payroll System Controls and Right to Work:

The outcomes of this review, as highlighted, were noted. The Internal Audit recommendations had been agreed for implementation.

F2 - Web Page Control

The outcomes of this review, as highlighted, were noted. The Internal Audit recommendations had been agreed for implementation.

B – Corporate Resources / Communities

B1 - Future State Assessment of ICT

Internal Audit had worked alongside the ICT review team examining their methodology, findings and recommendations (i.e. a “critical friend” approach).

The work had concluded that:

- * The assessment delivered was comprehensive, sufficiently detailed, reflected the current state of the Council ICT and recommended a future state that was modern, flexible and stable.
- * The methodology used by the review team had been appropriate, comprehensive and had been executed by experienced and appropriately skilled staff.
- * The transition plan appropriately prioritised projects required to deliver the future state and phased their delivery across a five year period.

Internal Audit recommendations had been agreed for implementation.

On a related subject, it was noted that work was being progressed on a number of ICT issues raised by councillors (e.g. data control issues faced by councillors). A written update would be sent to committee members.

EXCLUSION OF PRESS AND PUBLIC:

At this point in the meeting, the committee noted that it would need to move into exempt session in order to consider an exempt appendix.

The committee accordingly

RESOLVED:

That under section 100A(4) of the Local Government Act 1972, the public be excluded from the meeting in respect of the committee’s consideration of this exempt appendix on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of part 1 of schedule 12A to the Act.

The committee then received updates on the following summaries of completed audits:



B2 - Digital Strategy:

The outcomes of this review, as highlighted, were noted. The Internal Audit recommendations had been agreed for implementation. It was noted the recommendations were based around digital vision, the governance of digital transformation, digital leadership capacity and organisational capacity to support digital transformation.

B3 - Third Party Assurance:

The outcomes of this review, as highlighted, were noted. The Internal Audit recommendations had been agreed for implementation.

It was noted that the purpose of the review had been to ensure that robust mechanisms were in place to ensure that the commissioning of IT hosted services had considered availability, security, and resilience to protect the Council's data.

The action plan identified from the review was being progressed.

B4 - Financial Systems Security and Resilience:

The outcomes of this review, as highlighted, were noted. The Internal Audit recommendations had been agreed for implementation.

B5 - Operations Centre - On Premise Security and Environmental Controls:

The outcomes of this review, as highlighted, were noted. The Internal Audit recommendations had been agreed for implementation.

RESOLVED:

That the report and the above information be noted.

10. Final Annual Governance Statement 2017-18

Item deferred. See minute no. 7 above.

11. Corporate risk register & risk management report

The committee considered a report seeking their review and comment about progress made on the Council's risk management arrangements and the Corporate Risk Report (CRR) (appendix A of the report), as a source of assurance that risk management arrangements are in place and developing.

The Interim Risk Manager presented the report, highlighting the following:

- a. The CRR was a key tool in managing the authority's risk, providing an overview of the significant risks faced by the Council and how they are being managed.
- b. As work continued to progress and strengthen the Council's strategic planning, resource management and resilience processes, the identification, management and communication of risk



in relation to the achievement of the Council's strategic priorities and objectives would also continue to embed.

- c. The risk management policy would be reviewed annually and outputs from the CRR would contribute to the annual Audit Plan.
- d. There was a particular focus currently on increasing the level of engagement and ownership by service managers in relation to risk management, and to embed best practice and principles across the organisation.
- e. No critical risks were identified currently in the CRR; there were 12 high rated risks, 5 medium rated risks, and 1 high and 1 medium event risks.

Main points raised/clarified/noted in discussion:

- a. It was confirmed that there was currently a high emphasis on engagement with key managers and staff in promoting learning and development around effective risk awareness and management. A series of workshops were being held currently. Training could also be offered to members.
- b. The format of the CRR as presented was generally welcomed. It was noted that the "arrow" symbol shown in the performance column was intended to provide a "quick" visual indication of the direction of travel in terms of the management /mitigation of each identified risk.
- c. The CRR was designed to highlight the organisation's significant and highly rated risks. All other risks were included in directorate risk registers and monitored accordingly.
- d. In terms of wider partnership governance, it was noted that further work was likely to be needed to align certain risks in the Council's risk registers with those of partners, e.g. in relation to the risks around student suicides and those affecting vulnerable people.
- e. Scrutiny commissions would be actively reviewing directorate risk registers.

Noting and taking the above into account, it was:

RESOLVED –

That the progress made on the Council's risk management arrangements and the Corporate Risk Report (appendix A of the report) be noted as a source of assurance that risk management arrangements are in place and developing.

12. Updated Audit Committee terms of reference and establishment of Values & Ethics Sub-Committee

The committee considered a report of the Interim Director - Legal and Democratic Services.

In discussion, it was noted that the proposed membership of the sub-committee was 4 councillors (one from each political group represented on the committee) plus an independent member who would chair the committee. It was noted that in circumstances where the sub-committee was investigating an alleged breach of the member code of conduct by a councillor, the relevant political group representative (i.e. of the political group that the councillor under investigation belonged to) would not participate in the sub-committee investigation of the breach.



Noting and taking the above into account, it was:

RESOLVED –

- 1. That the updated terms of reference of the committee, as approved by the Full Council on 17 July be noted.**
- 2. That a Values and Ethics Sub-Committee be established, as per the terms of reference set out in Appendix A. In relation to the membership for 2018-19, it was noted this would comprise 4 councillors: 1 Labour (Cllr Mead), 1 Conservative (Cllr Radford), 1 Green (Cllr Stevens) and 1 Liberal Democrat (Cllr Negus). The sub-committee would be chaired by 1 of the 2 independent members of the Audit Committee.**
- 3. That arrangements be made for an inaugural meeting of the sub-committee.**

13. Audit Committee Programmes relating to the Bristol City Council wholly owned companies

The committee considered a report of the Shareholder Liaison Director.

The Shareholder Liaison Director presented the report, highlighting the following:

- a. The role of the company's own audit committees in identifying the risks faced by the companies and thus the appropriate audit programme. Specifically, each of the company audit committees would:
 - * Develop and approve an annual audit plan.
 - * Initiate audits.
 - * Consider audit outcomes and the need for additional work.
 - * Review external audits and meet with the auditors to discuss any issues raised.
 - * Report to their respective Company Board.
- b. The role of the Shareholder Group in ensuring that the programmes of activity identified by the company's audit committee are delivered in a timely manner.

Main points raised/clarified/noted in discussion:

- a. It was clarified that the role of the BCC Audit Committee in relation to the company audit processes would be:
 - * To review the consolidated annual audit plans for the companies.
 - * To consider sampling the company audit reports (in detail or in summary) to the company audit committees.
 - * By exception, to initiate audits to investigate areas of concern or issues that may arise due to the nature of the interface between the Council and the companies.
 - * By exception / rotation, to request meeting with representatives of a company's audit committee as part of the annual review of effectiveness.



- b. In terms of the company audit committee membership, this comprised a Non-Executive Director as Chair plus another company director, and a councillor. The company managing director, finance director and operations director would attend as required by the committee.
- c. It was suggested that it may be appropriate for the relevant councillor appointed to the company audit committees to attend the BCC Audit Committee periodically, e.g. when the BCC Audit Committee received the consolidated company audit plans. Essentially, the BCC Audit Committee needed to seek assurance that the companies were managing their risks effectively.
- d. It was suggested that at the point when the Overview and Scrutiny Management (OSM) Board receives an update on the recent review of the governance of the companies, it would be appropriate for a member of the BCC Audit Committee to be invited to attend the OSM Board for that item.

Noting and taking the above into account, it was

RESOLVED –

That as part of the Audit Committee annual work programme, the committee should consider the following items in overseeing the Company’s audit programmes:

- 1. Annual accounts (within the context of the overall Council audit).**
- 2. Annual Governance Statement.**
- 3. A consolidated version of the Company’s Annual Audit Programme (prepared by each of the company’s audit committees).**
- 4. A 6 month update on progress with the Annual Audit Programme.**

14. GDPR update

The committee considered a report of the Interim Director – Legal and Democratic Services.

Main points raised/clarified/noted in discussion:

- a. A good rate of progress had been achieved over the last few months. The project deliverables (in relation to the project established to deliver the essential elements of compliance with GDPR) had been achieved by 25 May (the date that GDPR came into effect). As a consequence of the action taken, the GDPR risk rating for the organisation had been reduced to “medium” from “high”. Members generally welcomed the progress achieved.
- b. A significant amount of work had taken place to raise organisational awareness about GDPR, including training for officers and members.
- c. Further work was planned to embed GDPR into the organisation to ensure ongoing compliance. This included ensuring training for staff joining the organisation, refresher training for all employees and ensuring that ICT systems met GDPR requirements.

RESOLVED:



That the steps taken to implement the General Data Protection Regulations be noted.

15. Exempt Appendix (A2) to Item 9.1

See item 9 above.

CHAIR _____

