

# Bristol City Council

## Minutes of the Audit Committee

16 October 2018 at 1.30 pm



### **Members Present:-**

**Councillors:** Mark Brain, Olly Mead, Anthony Negus, Steve Pearce, Liz Radford, Afzal Shah and Clive Stevens

### **Officers in Attendance:-**

Denise Murray (Director - Finance & Section 151 Officer), Quentin Baker, Nancy Rollason (Service Manager Legal), Jonathan Idle, Melanie Henchy-McCarthy, Alison Mullis, Chris Holme (Interim Service Manager - Corporate Finance), Tony Whitlock and Allison Taylor (Democratic Services Officer)

## **1. Welcome, apologies and safety information**

Apologies were received from Adebola Adebayo.

The Chair welcomed everyone to the meeting and introductions took place. He also reminded those present of the safety information as detailed on the agenda.

## **2. Declarations of interest**

Councillors Radford and Stevens declared that they were Bristol Energy customers. Councillor Pearce declared that he was a non-Executive Director of Bristol Energy.

## **3. Public forum**

The Committee agreed to hear Public Forum before the item to which it related.

## **4. Final Annual Governance Statement 2017-18**

The Chief Internal Auditor introduced the report, highlighting that the Annual Governance Statement (AGS) was largely completed when the draft version was presented to the Committee in May 2018. The comments and observations made by members at the May Committee had been reviewed and



amendments had been made to the AGS accordingly. The final version of the AGS had been signed by the Mayor, Head of Paid Service, Monitoring Officer and the Section 151 Officer.

It was also highlighting that the external auditors, BDO, had been consulted and they were satisfied that there were no outstanding matters of compliance in respect to the Final AGS.

Members were reminded that the first update in respect of management actions taken to address the “Significant Governance Issues” within the AGS had been reported to the Audit Committee at the September meeting.

The following points arose from debate:-

1. The Chair congratulated officers on improvements on the progress made on the implementation of recommendations from the Bundred report. There had been long-term issues to address and the improvements were being reflected in a more stable financial position;
2. The recent Judicial Review against the Council was not reflected in the Statement as it did not occur in the 2017/18 financial year;
3. The preliminary findings of BDO with respect to final payment to the ex-Chief Executive had not been fully reflected in the Statement as finalisation of the findings and recommendations were awaited;
4. The Chair expressed concern that that the Forward Plan was still not publishing future Cabinet decisions sufficiently far ahead although he acknowledged there had been improvements which allowed for better scrutiny;
5. The Chair allowed the Chair of OSMB, Councillor Gollop, who was in attendance as an observer to comment. He reported that he had held positive discussions with the Mayor regarding further improvements and requested that Audit Committee urge the Mayor to make the necessary improvements to ensure good governance and scrutiny;
6. Councillor Negus found the current situation unacceptable and a deficit in the democratic process. He urged all Committees to take the matter up with the Mayor.
7. Councillor Pearce suggested that a far longer term Forward Plan might be more useful. The Service Director – Finance reported that the Forward Plan was in line with the current Decision Pathway as agreed with the current administration and agreed to raise the Committee’s concerns with the Mayor’s Office;
8. Minor typographical errors were highlighted;
9. The Committee accepted the recommendation of the report and it was therefore:-



**Resolved (Unanimously) – That the Final Annual Governance Statement and Action Plan be agreed as a fair reflection of the internal control and governance environment during 2017/18 and to date.**

## 5. Finalised Statement of Accounts for the year ended 31 March 2018

The Committee first heard Supplementary Questions from Alderman Price in relation to his Public Forum submission, the responses to which are set out below each question.

1. Assurance was sought that the new Education Management system would have the ability to track the performance of children in care.

**Response:** The Education Management system sits on the same shared database as social care and early help, so there is a single record for a young person which contains data we, as an LA, store on them including care status, end of key stage results, as well as a wealth of other information where services work with a child / young person. On that basis we are able to track the performance of all children and subsets of children including those in care.

2. In relation to the pupil premium assurances that a separately identifiable cost centre was available and utilised for accounting and reporting on the grant funding associated to LAC pupil premium.

**Response:** The LA can confirm that a separately identifiable cost centre is available and utilised for accounting and reporting on the grant funding associated with LAC Pupil Premium.

The Interim Head of Corporate Finance summarised the report highlighting a number of changes made since the Statement was considered in May as follows:

- An in depth review by the Council's insurance provider identified an under value of heritage assets by £98m which was incorporated in the draft statement. As this related to assets held by the Council prior to 1 April 2016 there were restatements of the balance sheet as at 31 March 2016 and 31 March 2017 requested, with the balance sheet for 31 March 2018 reflecting a £2m increase in revaluations in 2017/18;
- Six months of the remuneration from salary of the ex-Chief Executive had been reclassified as compensation for loss of office. BDO reported that it was inappropriate to conclude that the final payment was contractual. This did not change the actual accounts and was no additional cost to the Council;
- A detailed note setting out the position relating to Bristol Arena following Cabinet decision on 4 September 2018. This did not change the numbers in the accounts.

The Committee were asked to approve the Statement of Accounts for 2017/18, the signing off of the accounts being delegated to the Chair of Audit Committee.



The following points arose from debate:-

1. Councillor Negus wanted assurance that there were processes in place so that heritage assets were accurately valued so that such a situation did not reoccur and was assured that there was a process to revalue annually. The cost of the insurance was reflected in the valuation of assets;
2. It was confirmed that although the Cabinet decision on the Arena came after the end of this year's accounts it was accounting and financial reporting practice to report such matters as a "post balance sheet event". Temple Island was classified as assets under construction and an element of the expenditure had been capitalised in prior years and 2017/18. A note recognised that the decision could change the value of assets as shown in the 17/18 accounts but the potential impact would be adjusted in the 18/19 accounts. It was noted that additional revenue sources had been identified so that there would be no impact on front line services;
3. Attention was drawn to Page 114 – Officers Remuneration and Exit Packages – and it was noted that Notes 10, 11 and 12 were missing from the Table;
4. Clarity was sought regarding the Table on Page 184 headed Group Movement in Reserves Statement. It was confirmed that this included useable and unusable reserves. Councillor Radford felt that this was unclear to the public and in fact it appeared that useable reserves had increased by £58m whilst the Council was at the same time cutting services;
5. The Service Director – Finance replied that these were not unallocated reserves but were specific reserves available for use by the Council as designated. It was technical accounting practice to display in this format. The Movement in Reserves Statement is a primary accounting statement. Its format is prescribed by the CIFPA Accounting Code and cannot be altered. The Statement sets out movements between usable and unusable reserves. The movement in useable reserves was set out in full in the 17/18 outturn report presented to Cabinet in June;
- 6 In summary £10.7m were planned increases from MRP savings and Collection Fund surpluses, £3.5m from additional S31 grant and £6.6m from Government grants with conditions carried forward to be spent in 18/19. Capital receipts increased by £18m. These were not required in 17/18 but will be needed over the life of the MTFP to fund transformational projects and short life assets. There was a further transfer of £17m from the HRA, mainly resulting from slippage in the capital programme.
7. Councillor Stevens referred to BDO's finding of a £12.9m impairment variance in Bristol Energy, clarity was provided on where this was reported in the Accounts and was also informed that this was set out in the draft BDO ISA 260 report;
8. The Committee was reminded of the Recommendation and it was:-



**Resolved (Unanimously) – That the Statement of Accounts for the year ended 31 March 2018 be approved for sign-off by the Chair subject to the additional information omitted being included in the final Statement.**

## **6. BDO (External Auditor) ISA 260 report 2017-18**

The Committee noted the response to a question submitted by Councillor O'Rourke. There were no Supplementary Questions but Councillor O'Rourke urged the Committee to take forward an internal review of arrangements relation to the final salary remuneration of the ex-Chief Executive.

The Committee then heard statements from Councillor O'Rourke and Councillor Hopkins.

The representative from BDO summarised the report and invited questions. The following points arose from debate:-

1. The Chair referred to the Table at Page 209 and the column on Pension Fund Liability. It was noted that actuaries used the figure of 26 years for life expectancy after retirement but this Council used the figure of 26.2 years which was not significantly longer so questioned why this was an issue. BDO acknowledged that this figure was not far greater than 26 years but because of the sensitivity of the valuation to these assumptions gave rise to a £6.3m overstatement which was significant although not material to the Council's accounts and was therefore set out in Appendix 1 under Unadjusted Audit Differences. The different rates did not impact on what the Council contributed to the Avon Pension Fund;
2. BDO had contacted the National Audit Office (NAO) to ask that when actuaries provide details of "normal" assumption ranges for the purposes of the central assurance review, that they also provide details of where local areas were applying a figure outside the normal range so that action could be taken earlier on and so reduce the risk of delays. The Committee noted that these findings related to the whole Avon Pension Fund not just the City Council.
3. Reference was made to Page 218 – Key Audit and Accounting Matters. It was noted that the valuation of subsidiaries of Bristol Waste and Bristol Energy had been calculated at £10.8m. This had resulted in a £12.8m impairment which had been corrected and put through in the accounting year. The preference shares were regarded as debt;
4. The representative from BDO acknowledged that the auditing of the accounts was still ongoing due to the complexity of issues arising. It was vital to fully investigate all issues in order to produce a quality report. All significant issues with the exception of the use of resources were in the report. It was not possible to give a date for the final report as BDO were still awaiting some pieces of information from the Council. Should any other matters arise before the report was finalised they too would need to be



addressed. The Service Director – Finance advised the Committee that it was being asked to agree the accounts as true and fair subject to there being no further reportable issues;

5. The representative of BDO clarified that the issue regarding the ex -Chief Executive’s final salary payment was true and fair for accounting purposes, so the accounts appropriately disclose the position. The outstanding issue was the use of resources arrangements and potential use of auditor powers but this did not impact on the opinion relating to the financial statements;

6. Councillor Negus wished to see BDO’s final assessment regarding the ex-Chief Executive’s final salary payment before he accepted the report as true and fair;

7. The Service Director – Finance confirmed with respect to the ex-Chief Executive’s final salary payment that officers had considered the latest advice given by the external auditors and Avon Pension Fund and had adjusted the accounts accordingly;

8. The Interim Service Director – Legal and Democratic Services reported that advice on this matter had changed over a period of time. He was confident that the decision arrived at now was correct. He was unable to speculate on previous legal advice;

9. Councillor Brain stated there was a lot of public interest in the matter which needed to be fully investigated;

10. The Chair noted that the authority had paid a previous Chief Executive very generously also and he wished to be assured that this did not happen again;

11. Discussion took place on how to progress a review of the final payment arrangements. The Committee’s Legal Advisor reminded the Committee it was not part of its Terms of Reference to commission enquiries into individual cases but it was within the Terms of Reference to consider the effectiveness of governance arrangements;

12. Simon Cookson agreed with this position but stated that one of the remits of Internal Audit was to review value for money and it may be appropriate to review the arrangements of the final payment upon receipt of the final report from BDO;

13. The Chief Internal Auditor highlighted that all Audit Committees should be apolitical;

14. Councillor Radford noted that Full Council had delegated terms and conditions for senior officers to HR Committee. If BDO determined that what was agreed was not the same as what was given then this was a governance issue which needed to be investigated;

15. Councillor Stevens reminded the Committee of the Bundred report and in particular the criticism of the Audit Committee. The default to openness and transparency was not evident in relation to the arrangements of this final payment and therefore must be reviewed. He formally proposed that members



of the Audit Committee meet informally, upon receipt of the BDO report, to develop a scope based on the adequacy of governance involved in the final salary arrangements and this was seconded. On being put to the vote it was:-

**Resolved (Unanimously) –**

- 1. That BDO's 2017/18 Audit Report and action plan agreed by management be noted;**
- 2. That the report from BDO on the arrangements associated with the final salary payment to the Ex-Chief Executive be considered by the Audit Committee as soon as it is made available;**
- 3. Should the Audit Committee resolve, on considering the BDO report, that the arrangements merit a review, the Audit Committee shall meet informally to develop a scope for that review and report back to the next Audit Committee.**

Meeting ended at 4.15pm

**CHAIR** \_\_\_\_\_

