

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 _____

