

# Bristol City Council Minutes of the Audit Committee

23 November 2017 at 2.00 pm



## Present:-

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

**Officers in attendance:** Denise Murray, Service Director – Finance; Tony Whitlock, Principal Accountant; Jonathan Idle, Interim Chief Internal Auditor; Alison Mullis & Melanie Henchy-McCarthy, Head of Internal Audit (job share); Nancy Rollason, Head of Legal Service & Deputy Monitoring Officer; Ian Hird, Democratic Services

**Also in attendance:** Matthew Hepenstal, BDO (external auditor)

## 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

Non-pecuniary interests were declared as follows:

Agenda item 8 – Internal Audit half-year activity report for the period 1 April – 31 October 2017: It was noted that the Chair and Councillors B Clark, Pearce and Radford were customers of Bristol Energy. It was noted that this would not preclude them from participating in discussion of the relevant matter at this meeting.

Agenda item 8 – Internal Audit half-year activity report for the period 1 April – 31 October 2017: the Chair advised the committee that she was a City Council appointed member of the University of Bristol Court. It was noted that this would not preclude the Chair from participating in discussion of the relevant matter at this meeting.



### 3. Minutes of previous meeting

#### **RESOLVED:**

**That the minutes of the meeting of the Audit Committee held on 21 September 2017 be confirmed as a correct record.**

#### **Matters arising (for information):**

**Bundred report and Annual Governance Statement tracker:** Councillor Stevens advised that he and the Chair had held an additional meeting with the Service Director - Finance, at which detailed information and additional assurance had been given around items within the action plan that were considered to be completed and evidenced.

#### **Action points arising from discussion of the Statement of Accounts for the year ended 31 March 2017:**

It was noted that the following outstanding action points would be picked up and addressed by officers following this meeting:

- A briefing note to be supplied to Councillor Stevens with further detail about how the valuation of the Council's housing stock is carried out.
- A briefing note to be sent to Councillor Pearce with further detail on how valuation decisions on investment properties are made and assessed/kept under review.

### 4. Action sheet

The action sheet (tracking actions agreed at the 21 September meeting of the committee) was noted.

In relation to action no. 7, Councillor Mead confirmed that he had received the requested information about the new business case template (as referred to in activity ref. B16 in the Bundred report and Annual Governance Statement tracker).

### 5. Public forum

#### **Questions**

The committee noted that a public forum question had been received, as follows:

#### **Question from Councillor Carla Denyer:**

"Dear Audit Committee

At Full Council last week (14<sup>th</sup> November) I was concerned by the contents of Full Council agenda item 18 – Decisions taken under special urgency provisions. Because of the overrunning of that meeting I reserved my remarks, considering them more fruitfully presented to you here instead.



I have no disagreement with the need for the 'special urgency provisions' in the constitution. I absolutely understand why *sometimes* the Cabinet's carefully planned agenda gets overtaken by events and they have to make a decision on something immediately because of a change in situation that's outside of their control.

*However*, it is not clear to me why none of these particular 5 agenda items could be foreseen. For example, the street lighting contract had a set expiry date – why did it catch anyone by surprise?

I am especially concerned that they were all added to the agenda using APR16 rather than APR15, meaning that the notice provided wasn't just cut from 28 days to 5, it was cut from 28 days to a few hours in some cases.

If our Cabinet and its supporting officers do not have the foresight to predict important decisions coming up even 5 days ahead, what chance do they have to deal with the enormous challenges coming their way over the next few years?

So my question for Audit Committee is: **Please will you look at these cases and if necessary make recommendations to Cabinet for how to prevent this issue continuing?**

I understand (from conversations with your Vice Chair) that you already plan to look at quality and transparency of decision making reports, and so I ask that late reports are considered as part of the same piece of work."

The committee noted the written reply, as follows:

"If any decision needs to be taken as a matter of special urgency, a proper process must be followed in that the Monitoring Officer must be satisfied that there is no option but to take the decision before it can be put on the next forward plan, and the Chair of Scrutiny must agree.

All of the decisions reported went through that process.

There are numerous reasons why a report may be late and these are usually beyond the control of officers or due to changes in process and governance arrangements.

With regard to these decisions:

**Local Growth Fund bid – 7 March 2017 Cabinet:** The LEP (the funding body for this grant) were unable to clarify the total amount of funding BCC could bid for until very late in the bidding process. This led to a delay in selecting schemes for inclusion in the bid (as we weren't sure what the total value of the project could be). The reason for urgency was that it was critical that the Council secured approval on the 7<sup>th</sup> March and not later as Bristol would miss the LEP Investment Board bid deadline of the 31<sup>st</sup> March 2017



(for consideration by the LEP Investment Board in May 2017). This would place significant time pressures on the individual projects we are seeking funding for.

**Dunmail housing scheme – 16 May 2017 Cabinet:** No information available by the date of this Audit Committee but can be provided.

**Parkview offices lease change – 26 June 2017 Cabinet:** A late opportunity arose to change the lease at Parkview which would enable the Council to end it in the coming months having relocated all the staff based there. This would deliver around £1m per annum recurring savings for the budget.

**Leasing out of offices at 100 Temple Street for Department of Work & Pensions (DWP) – 19 September 2017 Cabinet:** Office design work was completed in late August and at that point it became apparent that the budget was not enough to undertake the works, based on an original estimate for the January Cabinet. This then necessitated a requirement for an urgent report to approve the additional budget and spend quickly so that the works could proceed in time to meet the DWP occupation start date on the 1<sup>st</sup> November 2017.

**Street lighting contract extension – 19 September Cabinet:** The existing contract needed to be extended to allow for the procurement process for a new three year contract to be followed. The previous administration's Cabinet in November 2015 had approved the procurement and extending the contract to do so, but for various reasons (advice from Legal and Procurement requiring a change in approach, internal resources including departure of the Street Lighting Manager) the tender process was delayed and a further 10 months was needed before a new contract could be awarded. The annual value of this work exceeded £500k, hence the need for Cabinet to approve a waiver of procurement regulations to extend the current contract. Not doing so would mean that we would have been out of contract from the end of September for the street lighting maintenance function and would not have been able to issue orders to keep lights on to meet the statutory safety obligations under the Highways Act 1980."

### Statements

The committee noted that public forum statements had been received, as follows:

1. Councillor Eddy – subject: recruitment of the former Chief Executive.
2. Councillor Hopkins – subject: recruitment of the former Chief Executive.

The statements were noted. The Chair advised the committee that she had also received a joint letter from Councillors Eddy, Hopkins and O'Rourke advising that they had written to BDO (the Council's external auditor) requesting an investigation of issues referred to in the above statements. It was noted that the external auditor would separately consider their own response to that letter.

## 6. Work programme - latest update - for information

The latest update of the work programme was noted.



It was noted that the report on the annual “whistleblowing” review had been rescheduled (from the 25 January 2018 meeting) to the 22 March 2018 meeting, to enable time for the review to be completed.

## 7. BDO's Annual Audit Letter 2016-17

The committee considered BDO’s (the Council’s external auditor) Annual Audit Letter, noting also that an appendix to the report set out the management responses to BDO’s ISA 260 report.

Matthew Hepenstal, BDO presented the Annual Audit Letter, highlighting the following:

- a. The Annual Audit Letter covered the year ended 31 March 2017. The letter essentially summarised the key issues arising from the work BDO had carried out in undertaking the 2016-17 audit of the Council, as had been detailed in full in the ISA 260 external audit report submitted to the committee’s previous meeting.
- b. The letter would be published on the Public Sector Audit Appointments website and also on the Council’s website.

Main points raised /clarified/noted in discussion:

- a. In terms of BDO’s application of materiality, it was clarified that the materiality for the financial statements as a whole was set at £18.8m. This was determined with reference to a benchmark of gross expenditure (of which it represented less than 2 per cent) which BDO considered to be one of the principal considerations for the Council in assessing financial performance. Taking account of the above, BDO had agreed with the Audit Committee that all individual audit differences in excess of £376,000 would be reported. The committee would receive an opportunity to review this figure in relation to next year’s audit plan.
- b. A summary of the audit differences was included at page 5 of the Annual Audit Letter. BDO had concluded that the uncorrected misstatements as detailed did not have a material impact on their opinion on the financial statements.
- c. In relation to the reference to the moratorium/spending freeze on non-essential, statutory or grant-funded activity in January 2017, it was suggested that better information and communications could have been provided (i.e. internally, from within the Council) to councillors about impacts on local spend arising from the spending freeze.
- d. In response to a question, it was confirmed by the external auditor that any changes in the valuation of the Council’s subsidiaries would not affect the Council’s income and expenditure account.
- e. In relation to the governance arrangements for the Council’s subsidiaries, it was noted that these were categorised as a normal risk and not as a significant risk, despite the fact that Bristol Energy had not performed in line with its original 2015 business plan and had incurred losses during its first 2 years of operation. It was noted that appropriate mitigation was pursued against all risks (i.e. irrespective of whether they were classified as being of “normal” or “significant” risk ), and that these governance arrangements would be retained as a risk area in terms of next year’s audit plan.

Taking into account the above, the committee



**RESOLVED:**

**That BDO's Annual Audit Letter 2016-17 and the management responses to BDO's ISA 260 report be noted.**

**8. Internal Audit half-year activity report for the period 1 April - 31 October 2017**

The committee considered the Internal Audit half-year activity report for the period 1 April – 31 October 2017.

The Chair reminded the committee that in relation to the section of the report setting out summaries of completed audits, two exempt appendices had been prepared by officers, and had been available for members of the committee to read in advance of this meeting under managed access arrangements.

In light of this, in relation to the committee's consideration of these exempt appendices, it was

**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 these exempt appendices on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 3 of part 1 of schedule 12A to the Act.**

The Interim Chief Internal Auditor then presented this half-year activity report, highlighting the following key messages:

- a. Audit Plan: Reductions in planned reviews needed to take place in order to compensate for both reduced resources and also the significant level of resources diverted to ad hoc requests. It was highlighted that the core purpose of Internal Audit was to provide the Audit Committee with an annual opinion on governance, risk management and internal control and this was at risk given the level of resources, and any significant diversion from the Audit Plan or sickness absence may limit the ability to provide this.
- b. At this half-year point, 50% of completed Internal Audit reviews showed limited or no level of assurance.
- c. The implementation rate in relation to Internal Audit recommendations was currently at 94% implemented or partially implemented.
- d. A significant degree of resource had been allocated to grant auditing and certification work (22 grants with a total value of £23.7m certified to date).
- e. The report also set out summaries of particular audits (including the summaries that were included as exempt appendices).

Main points then raised /clarified/noted in discussion:



**Grant certifications / contract management:**

- a. In discussion, concern was expressed about the degree to which Internal Audit resource had necessarily been directed (sometimes at very short notice) to grant certification work. It was noted that this had a significant resource impact on Internal Audit. It was suggested that further assurance may be needed around the capacity and ability of the authority to effectively manage grants. Following discussion, it was noted that work was being instigated to ensure a disciplined, corporate approach to the grant administration process. In terms of assurance, it was agreed that it would be useful for a more detailed report on the audited grant certifications to be brought back to the committee.
- b. In further discussion, concern was also expressed about the effectiveness of current contract management and renewal arrangements. It was concerning, for example, that the renewal of the street lighting contract had resulted in an urgent report to the Cabinet seeking approval, at short notice, of the contract renewal. On a corporate basis, there may also be a need for further assurance around the general effectiveness of contract management arrangements. The expectation was that contract review / renewal dates should be properly diarised, with an alert system / protocol also in place to ensure review deadlines were met. Following discussion, it was noted that the issue of assurance around contract management arrangements could be picked up as part of the scheduled Audit Committee training workshop on commissioning governance (scheduled for 25 January).
- c. It was suggested that some of the issues and gaps around contract /grant administration may have emerged as an unintended consequence of the very significant transformational change taking place across the Council; consideration could perhaps be given to dedicating an additional resource to Internal Audit as a means of helping the Mayor and the Strategic Leadership Team in identifying / plugging gaps in service that may emerge during this period of transformational change.

**Completed Audit - General Data Protection Regulations - readiness review:**

Although noting that the Internal Audit recommendations from this review had been agreed for implementation, including the appointment of a dedicated project manager, members were concerned that further assurance may be required about the readiness of the Council in relation to GDPR. It was agreed that a further progress report should be requested for the next Audit Committee, with relevant officers invited to attend the meeting to respond as necessary to any questions from the committee.

**Completed Audit - Data Loss Prevention System:**

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

**Completed Audit - Foster Care Payments and Budgetary Control:**

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



### **Completed Audit - Early Years Funding:**

The outcomes of this review, as highlighted in the report, were noted. Internal Audit recommendations from this review had been agreed for implementation. It was noted that in relation to 2017-18, the DfE had made an adjustment to effectively compensate for the error made by the Council in submitting the Early Years census to the DfE in January 2016.

### **Completed Audit - Green Deal Community Grant Review:**

The outcomes of and lessons learnt as a result of this review, as highlighted in the report, were noted.

(Councillor Shah left the meeting at this point (3.18 p.m.)

### **Completed Audit - Resources - Accounts Receivable:**

- a. The outcomes of this review, as highlighted in the report, were noted, including the areas for improvement in respect of which 14 recommendations had been made.
- b. It was noted that a corporate debt policy was now being brought forward through the Strategic Leadership Team and, in terms of assurance, it was agreed that this policy should be brought to the Audit Committee.

### **Discussion of Completed Audits as detailed in the exempt appendices to the report**

The committee discussed the completed audits as referred to in the exempt appendices to the report (a separate exempt minute has been prepared in relation to this part of the meeting).

### **General discussion around the half-year activity on completed audits:**

Further to the earlier discussion around grants and contract monitoring, and other issues identified in the report, especially from completed audits, committee members expressed the importance of ensuring an organisational culture whereby appropriately robust service controls are in place, lessons are learnt when issues and problems occur, and agreed actions are then fully implemented. It was also important to appropriately hold relevant officers to account for the implementation of agreed actions. As part of this, moving forwards, the Audit Committee may on occasions need to require officers to attend their meetings to review progress / provide assurance as necessary.

The Interim Chief Internal Auditor highlighted that, in 2017-18, Internal Audit had completed various significant reviews of specific governance and control issues, many of which had been specifically commissioned by senior management.

Noting and taking into account the above, the committee

### **RESOLVED:**

**That the Internal Audit half-year activity report be noted, including the deletions to the 2017-18 Internal Audit plan.**

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





## 9. Internal Audit counter fraud update report for the period 1 April - 31 October 2017

The committee considered the Internal Audit counter fraud update report for the period 1 April – 31 October 2017.

The Interim Chief Internal Auditor presented this half-year report, highlighting the following:

- a. The counter fraud team continues to identify potential savings which cover its costs.
- b. The volume and range of work undertaken by the team is considerable. Competing priorities and existing resources remain a challenge, particularly in terms of achieving the best balance, given the level of resource, between reactive, investigative work and proactive initiatives to secure cashable savings.
- c. A current identified gap is that the team does not have a stable resource position. Greater stability for the team with temporary posts/secondments secured on a permanent basis is an issue to be addressed.
- d. There is an important challenge around turning potential, recoverable savings into actual recovered savings.
- e. Key results included: 16 Council properties regained; 8 right to buy applications cancelled due to identifying false information; 19 care home payments cancelled where the deaths of clients had not been notified to the Council; Blue Badge enforcement and education.

Main points raised /clarified/noted in discussion:

- a. The Chair suggested that, moving forwards, it would be preferable to retain a focus on maximising cashable savings from identified “big ticket” issues.
- b. The value of ensuring effective publicity around successful actions and initiatives was acknowledged, e.g. although the Blue Badge enforcement and education activity had not in itself generated significant direct financial savings, the positive publicity should act as a deterrent to Blue Badge fraud.
- c. It was noted that there may be a case for further investigation around the issue of failures in notifying deaths of clients in care homes to the Council, i.e. the issue of whether this was purely attributable to particular care homes failing to notify the Council in a timely manner, or whether there were any council “system” or data matching issues to address.
- d. In relation to the identified personal budget fraud (adult social care direct payments), the committee emphasised the importance of robust arrangements being in place to reduce the likelihood of fraud.
- e. The committee acknowledged the ongoing importance of the counter fraud team and welcomed the key results achieved by the team over this 6 month period.

Taking into account the above, the committee

### **RESOLVED:**

**That the Internal Audit Counter Fraud update report be noted.**



## 10. Corporate Risk Register update

The committee considered a report asking members to review and comment upon the draft Corporate Risk Register (CRR) as a source of assurance that risk management arrangements are in place and developing.

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

- a. The report set out the detail of the newly refreshed draft CRR. This had been developed following wide consultation involving managers across the Council.
- b. The risk management policy had also been reviewed and the draft CRR was now presented in the format required by the new policy.
- c. The Cabinet would be asked to approve the Risk Management Policy at their next meeting on 4 December and would review the CRR going forwards on a quarterly basis.

Main points raised /clarified/noted in discussion:

- a. A risk owner (at strategic or service director level) was identified for each risk.
- b. It was suggested that there could be a potential corporate risk around the resourcing / staffing of the Internal Audit function which may need to be explored.
- c. Further to points raised at the previous meeting, and whilst noting that the new “task and finish” scrutiny arrangements are member led, concern was expressed that the opportunity for wider member scrutiny of directorate risk registers was being lost. It was noted though that the issue of a mechanism that would still allow a form of member scrutiny around directorate risks and performance was to be discussed with the party group leaders. The OSM Board was also holding a workshop in February to review the scrutiny arrangements and, further to the action agreed at the previous meeting, officers would take forward the suggestion that Audit Committee members should be invited to attend that workshop.

Taking into account the above, the committee

### **RESOLVED:**

**That the draft Corporate Risk Register (CRR) be noted as a source of assurance that risk management arrangements are in place and developing.**

## 11. Internal Audit Quality Assurance Improvement Programme

The committee considered a report seeking approval of the Internal Audit Quality Assurance Improvement Programme.

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

- a. In accordance with the Public Sector Internal Audit Standards, Internal Audit was required to maintain a Quality Assurance and Improvement Programme and report against this in its annual report to the committee. This report was therefore presented for the committee’s consideration and approval as per this requirement.



- b. An external peer review of Internal Audit had been held earlier this week; the results of this review would be reported to the next meeting of the committee.

Taking into account the above, the committee

**RESOLVED:**

**That the Internal Audit Quality Assurance Improvement Programme be approved.**

## **12. Internal Audit updated Charter, Terms of Reference and Strategic Statement**

The committee considered a report of the seeking approval of the Internal Audit updated Charter, Terms of Reference and Strategic Statement.

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

- a. The updated Charter (setting out Internal Audit's purpose, authority and responsibilities) was presented for the committee's approval in accordance with the requirements of the Public Sector Internal Audit Standards.
- b. The main additions to the charter were:
  - \* the addition of an Internal Audit mission statement (para. 2.2 of the charter).
  - \* the insertion (paras. 7.3 - 7.4) of processes in the event of an impairment to the independence of Internal Audit.
  - \* the expansion of the responsibilities incumbent on the Council's senior managers (para. 5.2). This included clear expectations around senior managers taking responsibility for full engagement with the Internal Audit follow-up process and providing evidence of the implementation of Internal Audit recommendations.

On behalf of the committee, the Chair formally thanked Internal Audit staff in appreciation of their ongoing work and efforts in meeting the objectives of the Charter.

Taking account of the above, the committee

**RESOLVED:**

**That the Internal Audit updated Charter, Terms of Reference and Strategic Statement be approved.**

## **13. Bundred report and Annual Governance Statement tracker - November 2017**

The committee considered a report 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. The report set out the latest position in terms of progress against the action plan.



- b. A lot of detailed work was being taken forward. The implementation of some of the action plan recommendations was subject to certain constitutional changes being approved by the Full Council, and to the completion of the finance team restructure.

In discussion, at the suggestion of the Chair, it was agreed that in the future progress reports submitted to the committee, it would be useful to additionally include a table in the covering report highlighting the key changes that had taken place since the previous progress report.

Noting and taking into account 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.**

#### **14. Treasury Management mid-year report 2017-18**

The committee considered the Treasury Management mid-year report 2017-18.

The Principal Accountant (Finance) presented the report, highlighting the following:

- a. The report met the treasury management regulatory requirement that the Council receive a mid-year treasury management review report.
- b. There were no policy changes in relation to the strategy and the update report reflected the updated economic position.
- c. The Council had identified a medium term borrowing requirement of £360m and was planning to borrow £100m to support the delivery of the capital programme.

Main points raised /clarified/noted in discussion:

- a. The Chair and other members welcomed the clarity of the narrative of the update report.
- b. In response to a question, it was acknowledged by officers that it would be appropriate and timely to review the Council's ethical investment policy.

Noting and taking into account the above, the committee

**RESOLVED:**

**That the Treasury Management mid-year report 2017-18 be noted.**

#### **15. DBS checks for members of the Council**

The committee considered a report setting out proposed action in relation to DBS checks for members of the Council.

The Head of Legal Service presented the report, highlighting the following:

- a. It was proposed that Basic DBS checks would be carried out for all members of Council.



- b. In addition, Enhanced checks without Barred list checks would be carried out for certain councillors occupying specific roles (as specified in the report) relating to the discharge of education and social services functions.
- c. This approach was endorsed by the Council's service directors with responsibility for children's services and adult social care.
- d. A policy would be drafted to give effect to the above.

Main points raised/clarified/noted in discussion:

- a. The Chair and other councillors expressed the view that ideally they would like to see Enhanced checks being carried out for all councillors, since, as part of their role, councillors would almost inevitably, at some point, have contact with young people or other vulnerable people, e.g. through casework; e.g. through involvement in a councillor/young person shadowing scheme. It was recognised, however, that the situation was complicated by the fact that:
  - \* the law specified that the Council was entitled but not required to undertake checks for councillors who discharge education and social services functions;
  - \* there was no unified approach nationally and there were differing interpretations of education and social services functions.

In addition, the LGA did not have a specific view/policy on this matter.

- b. Concern was expressed about the reputational damage that could be caused in the event of a councillor engaging in inappropriate behaviour or committing a criminal offence, which may potentially have been avoided by virtue of Enhanced checks being carried out for all members.
- c. Whilst noting that a policy would be developed as suggested in the report, with basic checks carried out for all councillors (and Enhanced checks without Barred list checks for councillors in specific roles), it was suggested that consideration be given also to establishing a list of councillors who have been Enhanced checked in other capacities to be able to undertake activities with children and vulnerable adults – for example, shadowing opportunities; also, given the nature of the role, consideration should be given to whether the position of Lord Mayor should be the subject of an Enhanced check. The Head of Legal Service undertook to give further consideration to these points.

Taking into account the above, it was

**RESOLVED:**

- 1. That it be noted 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 specified in the report.**
- 2. That a policy will be drafted in light of the above, and submitted to this committee.**

Meeting ended at 5.18 pm

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



